

# BANCO HIPOTECARIO

## Banco Hipotecario S.A.

US\$250,000,000

Series No. 5

9.75% Notes due 2016

Issue Price: 99.217%

This pricing supplement relates to the series of notes referred to above, or the “notes”, and is supplementary to and should be read together with the offering memorandum dated April 20, 2006, or the “offering memorandum”, attached hereto, issued in connection with our US\$1,200,000,000 Global Medium-Term Note Program.

The notes will constitute *obligaciones negociables* under, and will be issued pursuant to and in compliance with all the requirements of, Argentine Negotiable Obligations Law No. 23,576, as amended by Argentine Law No. 23,962, or the “Negotiable Obligations Law”, Joint Resolution No. 470-1738/2004, or the “Resolution”, issued by Argentina’s *Comisión Nacional de Valores* (the Argentine National Securities Commission), or the “CNV”, and the Argentine Tax Authority and any other applicable Argentine laws and regulations.

The establishment of the program has been authorized by Resolution No. 14,546 of the CNV dated June 26, 2003. Such authorization means only that the information requirements of the CNV have been satisfied. The CNV has not rendered any opinion in respect of the information contained in the offering memorandum and/or in this pricing supplement. The accuracy of the accounting, financial, economic and all other information contained in the offering memorandum and/or in this pricing supplement is the sole responsibility of the board of directors of the Bank and, to the extent applicable, the Bank’s auditors who delivered their reports on the financial statements included in the offering memorandum.

The program is currently rated “raA” at domestic level and “B” at global scale by Standard and Poor’s, and “A(arg)” at domestic level by Fitch Argentina.

**The notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws and may not be offered or sold to or for the account or benefit of U.S. persons except in transactions that are exempt from registration under the Securities Act. Accordingly, we will only sell the notes to “qualified institutional buyers” (as defined in Rule 144A under the Securities Act) (“QIBs”) or outside the United States in compliance with Regulation S under the Securities Act. For a description of these and certain further restrictions on offers and sales of the notes and distribution of the pricing supplement and the remainder of the offering memorandum, see “Subscription and Sale” and “Transfer Restrictions” in the offering memorandum and “Selling Restrictions” in this pricing supplement. No representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for resale of any notes.**

**The notes are excluded from the Argentine deposit insurance system established pursuant to Argentine Law No. 24,485, and will not benefit from the exclusive priority right granted to depositors pursuant to Article 49(d) and (e) of the Argentine Financial Institutions Law, as amended. The notes are not secured by any floating security or special guarantee nor are the notes guaranteed by any other means or by any other financial entity.**

We will apply to list the notes on the Euro MTF market of the Luxembourg Stock Exchange and in the Republic of Argentina on the Buenos Aires Stock Exchange and to have the notes admitted for trading on the Mercado Abierto Electrónico S.A. However, there can be no assurance that an active trading market for the notes will develop, or, if one does develop, that it will be maintained. If an active trading market for the notes does not develop or is not maintained, the market price and liquidity of the notes may be adversely affected.

**You should carefully consider the Risk Factors beginning on page 21 of the offering memorandum for a discussion of certain factors to consider in connection with an investment in the notes.**

**Citigroup**

**Deutsche Bank Securities**

April 20, 2006

The issue of the notes was authorized by a resolution of the Board of Directors of the Bank dated March 10, 2006.

We are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing the notes, you will be deemed to have made the acknowledgements, representations, warranties and agreements described in the offering memorandum. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

This pricing supplement and the accompanying offering memorandum are based on information provided by us and by other sources that we believe are reliable. We cannot assure you that this information is accurate or complete. This pricing supplement and the accompanying offering memorandum summarize certain documents and other information and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of our company and the terms of the offering and the notes, including the merits and risks involved.

We are not making any representation to any purchaser of the notes regarding the legality of an investment in the notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this pricing supplement or the accompanying offering memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the notes.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this pricing supplement or the accompanying offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

This pricing supplement is supplementary to, and should be read in conjunction with, the offering memorandum.

---

#### NOTICE TO NEW HAMPSHIRE INVESTORS

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A NOTE IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE, CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A NOTE OR TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, NOTE OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE INVESTOR, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

**FOR PURCHASES MADE IN ARGENTINA: IN ACCORDANCE WITH THE TERMS OF THE RESOLUTION, NON-BINDING EXPRESSIONS OF INTEREST IN CONNECTION WITH THE PURCHASE OF THE NOTES MAY BE MADE TO CITICORP CAPITAL MARKETS S.A., DEUTSCHE BANK S.A. AND BANK BOSTON N.A. SUCURSAL BUENOS AIRES DURING THE PERIOD OF NINE (9) DAYS, OR THE "SOLICITATION PERIOD", COMMENCING ON THE DATE OF PUBLICATION OF THIS PRICING SUPPLEMENT IN THE BUENOS AIRES STOCK EXCHANGE'S BULLETIN (UNLESS SUCH PERIOD IS EXTENDED BY US, AND NOTICE OF SUCH EXTENSION IS PROVIDED THROUGH THE BUENOS AIRES STOCK EXCHANGE'S BULLETIN AND PUBLISHED IN AN ARGENTINE NEWSPAPER OF GENERAL CIRCULATION PRIOR TO THE EXPIRATION OF THE SOLICITATION PERIOD). IN ACCORDANCE WITH THE TERMS OF THE RESOLUTION, ONCE THE ISSUE PRICE AND THE INTEREST RATE FOR THE NOTES HAVE BEEN DETERMINED ON THE PRICING DATE (AS DEFINED BELOW), A NOTICE WILL BE PUBLISHED IN THE BUENOS AIRES STOCK EXCHANGE'S BULLETIN AND INVESTORS WILL BE ABLE TO CONFIRM, DURING THE BUSINESS DAY (IN BUENOS AIRES) FOLLOWING THE DAY OF PUBLICATION OF SUCH NOTICE, ANY NON-BINDING EXPRESSIONS OF INTEREST PLACED DURING THE SOLICITATION PERIOD. "PRICING DATE" MEANS THE LAST BUSINESS DAY (IN BUENOS AIRES) IN THE SOLICITATION PERIOD. BOTH THE ISSUE PRICE AND THE INTEREST RATE FOR THE NOTES WILL BE DETERMINED BY THE ARRANGERS AND DEALERS TOGETHER WITH US.**

---

## PLACEMENT EFFORTS AND ALLOCATION PROCESS

### Placement Efforts

The Bank, the Arrangers and the Dealers and, in Argentina, the Argentine Placement Agents, plan to make a series of marketing and placement efforts, the “Public Offering Placement Efforts”, in connection with the public offering of the notes, both in Argentina and abroad. The notes will be offered and marketed to the largest possible audience of Argentine and international institutional investors, as more fully described in the offering memorandum. The Bank’s credit profile and history will itself present an effective marketing tool to assist potential investors in familiarizing themselves with the Bank’s business fundamentals, financial situation and strategy.

The Public Offering Placement Efforts will consist of a variety of marketing methods that have proven successful in past transactions, among them:

- 1) a road show in Buenos Aires in which potential institutional investors such as pension funds, insurance companies, brokerage firms and retail will be invited to participate;
- 2) a global conference call or international road show where potential investors will have the opportunity to participate;
- 3) the Bank’s management will be available to potential investors in Argentina and abroad via:
  - one-on-one conference calls,
  - one-on-one meetings, and
  - group meetings.
- 4) an “electronic roadshow”, an audiovisual presentation available through the Internet which allows those unable to attend the road show and global conference call, referred to above, to have access to the Bank’s presentation;
- 5) distribution of the preliminary and final offering memorandum and this pricing supplement to investors in Argentina and relevant investors abroad (in hard copy and/or electronically);
- 6) making available to potential investors at the address of the Bank (a) the written materials referred to above, and (b) a designated contact person as detailed in the advertisement referred to below; and
- 7) communications and advertisements published in an Argentine newspaper of general circulation and in the Buenos Aires Stock Exchange’s bulletin.

### Allocation Process

The criteria for allocating the notes among investors who have placed orders in the order book maintained by the Dealers with a price indication (spread) that is below or equal to the final pricing indicated by the Bank, will be based on the investor’s understanding of the Bank’s credit profile and its intention to maintain a long-term position for the notes. The rationale behind such criteria is that the secondary market price of the notes will benefit from a stable, credit-oriented base of long-term holders, thus creating an effective and valid benchmark for the Bank and facilitating its future access to the international capital markets.

Consequently, if there is an oversubscription of the notes in the order book, the notes are expected to be placed principally among Argentine and international institutional investors, as well as private and retail banking accounts in Argentina. Among such investors, pension funds, insurance companies, brokerage firms, money managers, private banking, and retail accounts are expected to receive the largest portion of the notes to be allocated. All investors who place orders with a price indication below or equal to the final pricing for the notes set by the Bank will receive an amount of notes, subject to compliance with all applicable laws.

The criteria to be applied to allocate the notes between investors with similar characteristics will be based on the size of the investor’s order, the aggressiveness of its price indication during the book-building process, its interest in the Bank’s credit profile throughout the marketing period, and its history in supporting transactions from Latin American issuers.

For purposes of purchasing the notes, the Argentine Placement Agents may request guarantees securing effective payment of the offers made by offerors who place orders in excess of Ps.100,000. In addition, interested investors must furnish all the information and documentation to be filed by them, or which may be required by the

Argentine Placement Agents, for compliance with criminal legal rules on the laundering of assets, capital market rules preventing and avoiding the laundering of assets issued by the *Unidad de Información Financiera*, which was created by Argentine Law No. 25,246, and those rules established by the CNV and/or the *Banco Central de la República Argentina* (the “Central Bank”). The Argentine Placement Agents will be able to reject orders if the referred rules are not complied with or their requirements are not satisfied.

---

### DEPOSIT OF FUNDS BY INVESTORS DOMICILED OUTSIDE OF ARGENTINA

The funds received by the Dealers from the sale of the notes to investors domiciled outside of Argentina will be transferred (after giving effect to the payment of certain fees) by the Dealers to the account of the Bank.

---

This pricing supplement will be incorporated in its entirety into, and will become a part of, the notes. In the event of any conflict between the provisions of this pricing supplement and the terms and conditions of the notes in the offering memorandum, the provisions of this pricing supplement will prevail.

---

### TERMS AND CONDITIONS

The terms of the notes are as follows:

1. Series Number .....	Series No. 5
2. Issuer .....	Banco Hipotecario S.A.
3. Title .....	9.75% Notes due 2016
4. Indenture .....	The notes are being issued under the Bank’s existing indenture dated January 14, 2004.
5. Aggregate Principal Amount .....	US\$250,000,000
6. Issue Price .....	99.217%
7. Issue Date .....	April 27, 2006
8. Form of Notes .....	<p>The Notes offered and sold inside the United States to U.S. persons who are QIBs in reliance on Rule 144A, will be issued in the form of a global Note (the “Restricted Global Note”) in fully registered form, duly executed by the Issuer and authenticated by the Trustee as provided in the indenture, and deposited with the Trustee as custodian for DTC on or about the Issue Date and registered in the name of a nominee of DTC. The Restricted Global Note will be issued bearing a Restricted Notes Legend.</p> <p>The Notes offered and sold outside the United States in Reliance on Regulation S (the “Regulation S Global Note”) will be issued in the form of a global Note in fully registered form, duly executed by the Issuer and authenticated by the Trustee as provided in the indenture and (i) in the case of a U.S. Global Note, a Global Note initially sold outside the United States in reliance on Regulation S, deposited with the Trustee as custodian for DTC and registered in the name of a nominee of DTC, and (ii) in the case of an International Global Note, a Global Note initially sold outside the United States in reliance on Regulation S, deposited with the Common Depositary as custodian for Euroclear and Clearstream and registered in the name of a nominee of Euroclear and Clearstream, on or about the closing date. The Regulation S Global Note will be issued bearing a Regulation S Legend.</p>

9. Authorized Denomination(s) .....	US\$35,000 and multiples of US\$1,000 in excess thereof.
10. Specified Currency .....	US dollars
11. Maturity Date .....	April 27, 2016
12. Cross-Default .....	Neither our ongoing default in respect of our indebtedness existing prior to January 14, 2004, nor the acceleration thereof, nor any resulting judgment, shall constitute an event of default in respect of the notes offered hereby.
13. Amortization .....	The notes will be repaid in full on the Maturity Date.
14. Fixed Interest Rate	
a. Day Count Basis .....	30/360
b. Interest Rate .....	9.75% per annum
c. Interest Payment Date(s) .....	Payable semi-annually in arrears on April 27 and October 27 of each year, commencing on October 27, 2006 (unless such day is not a business day in which case such payment date will be the next succeeding business day).
15. Relevant Business Day .....	New York City and City of Buenos Aires
16. Redemption at the Option of the Bank .....	None, other than as described under “Description of the Notes — Redemption and Repurchase — Early Redemption for Taxation Reasons.”
a. Notice Period .....	Not less than 30 nor more than 60 days.
b. Amount .....	All
c. Call Redemption Amount .....	Par, plus any accrued and unpaid interest.
17. Redemption at the Option of the Noteholders ..	None
<b>Other Relevant Terms</b>	
1. Listing .....	Applications will be made to list the notes on the Euro MTF Market of the Luxembourg Stock Exchange and on the Buenos Aires Stock Exchange, and to make the notes eligible for trading on the Mercado Abierto Electrónico S.A.
2. Syndicated .....	Yes
a. Joint Bookrunners and Lead Arrangers .....	Citigroup Global Markets Inc. and Deutsche Bank Securities Inc.
b. Stabilizing Manager .....	Citigroup Global Markets Inc.
3. Commissions and Concessions .....	0.875%
4. CUSIP	
a. Restricted Global Note .....	05961A AC 7
b. Regulation S Global Note .....	P1330H BD 5
5. ISIN	
a. Restricted Global Note .....	US05961AAC71
b. Regulation S Global Note .....	USP1330HBD54
6. Identity of Dealers .....	Citigroup Global Markets Inc. and Deutsche Bank Securities Inc. (Citicorp Capital Markets S.A., Deutsche Bank S.A. and Bank Boston N.A. Sucursal Buenos Aires for purchases made in Argentina)

## 7. Provisions for Registered Notes

Clearance ..... DTC, Euroclear and Clearstream, Luxembourg

## 8. Use of Proceeds .....

All or a portion of the net proceeds from the offering of the notes will be used to repurchase, in a concurrent cash tender offer that we are conducting, the Bank's 2013 U.S. dollar and Euro-denominated bonds that are validly tendered; and for working capital and general corporate purposes, all in compliance with the requirements of Article 36 of the Argentine Negotiable Obligations Law No. 25,576, as amended, and Communication "A" 3046, as amended, of the Argentine Central Bank.

---

## SELLING RESTRICTIONS

### United Kingdom

The Dealers have represented and agreed, and each further Dealer appointed under the program will be required to represent and agree, that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act of 2000, or "FSMA") received by it in connection with the issue or sale of any notes in circumstances in which Section 21(1) of the FSMA does not, or would not, apply to the Bank; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any notes in, from or otherwise involving the United Kingdom.

### European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), the Dealers have represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of notes to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

---

**AVAILABLE INFORMATION**

Copies of the offering memorandum, this pricing supplement and all documents related with the issuance of the notes offered hereby will be available at the Bank's offices at Reconquista 151, zip code 1003, City of Buenos Aires, Argentina.

[THIS PAGE IS INTENTIONALLY LEFT BLANK]



# BANCO HIPOTECARIO

## **Banco Hipotecario S.A.** **US\$1,200,000,000** **Global Medium-Term Note Program**

Under our US\$1,200,000,000 Global Medium-Term Note Program, which we refer to as the “program”, we may from time to time issue notes denominated in any currency as may be set forth in a pricing supplement to this offering memorandum. We may issue notes with maturities of not less than 30 days and not more than 30 years from the date of issue. The maximum aggregate principal amount of all notes we may have outstanding at any time is limited to US\$1,200,000,000 (or its equivalent in other currencies calculated as described herein). The notes issued under the program may (i) bear a fixed rate of interest, (ii) bear a variable rate of interest, or (iii) be issued at a discount and not bear interest. The principal amount, maturity, interest rate and interest payment dates of each series of notes issued under the program will be described in a pricing supplement to this offering memorandum related to such series. Specific terms and conditions applicable to the notes that supplement, modify or amend the general terms and conditions of the notes described in this offering memorandum will be described in the pricing supplement applicable to such series.

We may offer the notes issued under the program directly or through dealers and agents that we may designate from time to time in exchange for cash or surrender of other securities. Any such dealers and agents will be set forth in the applicable pricing supplement. This offering memorandum may not be used to consummate sales of notes issued under the program unless accompanied by the applicable pricing supplement. The Bank may retain one or more dealer managers or authorized intermediaries to effect distribution of the notes. We reserve the right to withdraw, cancel or modify any offering of notes contemplated by this offering memorandum or any pricing supplement without notice.

**See “Risk Factors” beginning on page 21 to this offering memorandum for a description of the principal risks involved in making an investment in the notes.**

The program is currently rated by Standard and Poor’s and Fitch Argentina. Standard and Poor’s rated the program, at domestic level, as “raA” and, at global scale, as “B”, while Fitch Argentina rated the program, at domestic level, as “A(arg)”. See “Ratings” in this offering memorandum.

The notes issued under the program have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or the “Securities Act”, or any state securities laws. Unless the notes are registered under the Securities Act, the notes may be offered only in transactions that are exempt from registration under the Securities Act and the securities laws of other jurisdictions. Accordingly, we will only offer and sell notes registered under the Securities Act or in transactions exempt from registration under the Securities Act to “qualified institutional buyers” (as defined in Rule 144A under the Securities Act) (“QIBs”) or institutional accredited investors (as defined in Rule 501(a)(1), (2) or (3) under the Securities Act) or outside the United States in compliance with Regulation S under the Securities Act. For a description of certain restrictions on resale and transfer of the notes, see “Subscription and Sale” and “Transfer Restrictions” in this offering memorandum.

We may apply to list the notes of a series on the market of the Luxembourg Stock Exchange, which we refer to as “Euro MTF”, during the period of twelve months from the date of this offering memorandum and on the Buenos Aires Stock Exchange and to have the notes admitted for trading on the *Mercado Abierto Electrónico S.A.*, which we refer to as “MAE”. With respect to notes listed in the Euro MTF, legal notice of the principal amount and the other terms and conditions of such notes, will be delivered to the Euro MTF on or before the date of issue of the notes of such series. The program provides that we may list notes on such other stock exchange(s) as we agree upon with the relevant dealer or dealers. We may also issue unlisted notes.

*Arrangers and Dealers*

**Citigroup**

**Deutsche Bank Securities**

April 20, 2006

Pursuant to Argentine Law No. 24,587 (“Law 24,587”), which became effective November 22, 1995, Argentine companies are not permitted to issue securities in certificated bearer form unless authorized by the Argentine *Comisión Nacional de Valores* (“CNV”) to be publicly offered in Argentina and are represented by global or individual certificates, registered or deposited with common depositary systems authorized by the CNV. By General Resolution No. 368/2001 of the CNV, as amended, the Euroclear Bank, SA/NV (“Euroclear”), Clearstream Banking, Société Anonyme (“Clearstream”), the Depository Trust Company (“DTC”), SEGA-Schweizerische Effekten Giro A.G. - Swiss Securities Clearing Corporation and the Argentine *Caja de Valores S.A.* have been authorized as common depositary systems for purposes of Law 24,587. Accordingly, as long as the provisions of Law 24,587 are applicable, we will only issue notes in registered non-endorsable form (“Registered Notes”) or deposited with a custodian or a clearing system, not exchangeable for certificated bearer notes, as we and the arrangers and dealers determine.

Unless otherwise provided with respect to a particular series of notes, the notes of each series sold outside the United States in reliance on Regulation S under the Securities Act (“Regulation S”) will be represented by a global note in fully registered form, without interest coupons (the “Regulation S Global Note”), deposited with a custodian for, and registered in the name of, a nominee of DTC or Euroclear and Clearstream. Prior to the date that is 40 days after the closing date for the issue of each series, beneficial interests in the Regulation S Global Note may not be exchanged for Registered Notes in certificated form. The notes of each series sold to or exchanged by QIBs in reliance on Rule 144A under the Securities Act (“Rule 144A”) will be represented by a restricted global note in registered form, without interest coupons (the “Restricted Global Note” and, together with the Regulation S Global Note, the “Registered Global Notes”), deposited with a custodian for, and registered in the name of a nominee of, DTC. Notes represented by the Registered Global Notes will trade in DTC’s Same-Day-Funds Settlement System and secondary market trading activity in such notes will therefore settle in immediately available funds. Beneficial interests in the Registered Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants, including Euroclear and Clearstream. The registered notes of each series sold to or exchanged by institutional accredited investors will be in certificated form and registered in the name of the holder thereof. Except as described in this offering memorandum, notes in certificated form will not be issued in exchange for interests in the Registered Global Notes. See “Description of the Notes.”

Each U.S. person who purchases notes or receives notes in exchange offers that bear a restrictive legend will be deemed to (i) represent that such person is purchasing or otherwise receiving the notes for its own account or for the benefit of an account with respect to which it exercises sole investment discretion and that it or such account is a QIB or an institutional accredited investor (unless the applicable pricing supplement does not provide for sales or transfers to institutional accredited investors) and (ii) acknowledge that the notes have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (A) in compliance with Rule 144A to a person whom the seller reasonably believes is a QIB, (B) outside the United States in compliance with Regulation S or (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144A thereunder (if available), and in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Each person that acquires or otherwise obtains notes sold outside the United States in reliance on Regulation S will be deemed to have represented that it is not purchasing the notes with a view to the resale, distribution or other disposition thereof to a U.S. person or in the United States. For a description of these and certain further restrictions on offers and sales of the notes and distribution of this offering memorandum, see “Subscription and Sale” and “Transfer Restrictions.” Additional restrictions will be described in the relevant pricing supplement, as applicable.

The notes issued under the program will constitute *obligaciones negociables* under Argentine Negotiable Obligations Law No. 23,576, as amended by Argentine Law No. 23,962 (the “Negotiable Obligations Law”), and are entitled to the benefits set forth therein and subject to the procedural requirements established in Decree 677/01. Offers of the notes to the public in the Republic of Argentina may be made by a substantially identical offering memorandum in the Spanish language.

**TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE UNIFORM SECURITIES ACT (“RSA 412-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

Notice under United Kingdom laws:

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the “Order”) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2) of the Order (all such persons together being referred to as “relevant persons”). The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

You should read this offering memorandum in conjunction with all documents which are incorporated herein by reference and you should construe the information contained herein on the basis that those documents form a part of this offering memorandum. See “Incorporation by Reference.”

We, having made all reasonable inquiries, confirm that this offering memorandum contains or incorporates all information with regard to us and the notes that is material in the context of the issuance and offering of the notes, that the information contained or incorporated in this offering memorandum is true and accurate in all material respects and is not misleading and that there are no other facts the omission of which would make this offering memorandum as a whole or any of such information misleading in any material respect. We accept responsibility accordingly. Notwithstanding the foregoing, the information provided in this offering memorandum or in any pricing supplement that relates to the Republic of Argentina and its economy is based upon publicly available information, and we do not make any representation or warranty with respect thereto. The Republic of Argentina, and any agency or political subdivision thereof, does not in any way guarantee, and their credit does not otherwise back, our obligations in respect of the notes.

We do not intend either this offering memorandum or any other information supplied in connection with the program to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by us or the dealers that any recipient of this offering memorandum or any other such information should purchase any of the notes. You are advised to make, and shall be deemed to have made, your own independent investigation of our financial condition and affairs, and your own appraisal of our creditworthiness. The dealers expressly do not undertake to review our financial condition or affairs during the life of the program or the notes of any particular series or to advise any investor in the notes of any information coming to their attention.

You should only rely on the information contained in this offering memorandum. We have not, and the dealers have not, authorized any other person to provide you with different or additional information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this offering memorandum is accurate as of the date on the front cover of this offering memorandum and not as of any other date. Our business, financial condition, results of operations and prospects may have changed since that date.

This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy any notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction, nor does this offering memorandum constitute an invitation to subscribe for or purchase any notes. The distribution of this offering memorandum or any part of it, including any pricing supplement, and the offering, sale and delivery of the notes in certain jurisdictions may be restricted by law. We and the dealers require persons into whose possession this offering memorandum comes to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers, sales and deliveries of notes and on the distribution of this offering memorandum and other offering material relating to the notes, see “Subscription and Sale” and “Transfer Restrictions.”

The establishment of the program was authorized at a meeting of shareholders of the Bank held on October 24, 1997 and by resolution of our board of directors approved on November 18, 1997. On December 11, 1998 and on December 14, 1998, our shareholders and board of directors, respectively, passed a resolution authorizing an increase in the principal amount of notes that may be issued under the program from US\$1,000,000,000 to US\$2,000,000,000. A shareholders meeting held on July 18, 2002 and amended by the shareholders resolution dated April 30, 2003, ratified the program, authorizing the issuance of secured and unsecured notes under the program. By resolution of our board of directors dated July 24, 2003, the maximum principal amount of notes issuable under the program was reduced from US\$2,000,000,000 to US\$1,200,000,000. The CNV authorized the public offer of the program in Argentina by Resolution 14,546 dated June 26, 2003. Such authorization means only that the information requirements of the CNV have been satisfied. The CNV has not rendered any opinion in respect of the information contained in this offering memorandum. This offering memorandum was approved by a resolution of our board of directors dated March 10, 2006.

The accuracy of the accounting, financial, economic and all other information contained in the Argentine offering memorandum is the sole responsibility of our board of directors, members of our supervisory committee, all the persons signing the offering memorandum and any applicable pricing supplement registered by the Bank before the CNV, and to the extent applicable, the arranger, placement agents, and other agents.

Since we were privatized on February 2, 1999, notes issued by us after such date must be approved by the CNV to qualify as *obligaciones negociables*. Nevertheless, the notes issued under our prior program were exempted from such approval in accordance with Article 37 of Decree N° 924/97 and CNV Resolution dated February 12, 1999. Under the current program such exemption is no longer applicable.

Neither we nor any dealer makes any representation regarding the legality of your purchase of or exchange for notes under applicable investment or similar laws and you should not construe the contents of this offering memorandum as legal, tax or investment advice. You are advised to consult your own attorney, accountant and business adviser as to legal, tax, business, financial and related matters concerning the purchase of notes.

We expect to give an undertaking in connection with the listing of any notes on the Euro MTF to the effect that, so long as any notes remain outstanding and listed on such exchange, in the event of any material adverse change in our financial condition which is not reflected in this offering memorandum, as amended or supplemented, we will prepare a further supplement to this offering memorandum or publish a new offering memorandum for use in connection with any subsequent issue of notes to be listed on the Euro MTF. If we modify or amend the terms of the program in a manner that would make this offering memorandum, as amended or supplemented, inaccurate or misleading, so long as any notes remain outstanding and listed on the Euro MTF, we will prepare a further supplement in connection with any subsequent issue of notes to be listed on the Euro MTF.

This offering memorandum and any supplement will only be valid for listing notes on the Euro MTF and the Buenos Aires Stock Exchange and trading in the Republic of Argentina through the MAE in an aggregate principal amount which, when added to the aggregate principal amount then outstanding of all notes previously or simultaneously issued under the program, does not exceed US\$1,200,000,000 (or its equivalent in other currencies calculated as described therein).

**The notes are excluded from the Argentine deposit insurance system established pursuant to Argentine Law No. 24,485, and will not benefit from the exclusive priority right granted to depositors pursuant to Article 49(d) and (e) of the Argentine Financial Institutions Law, as amended. The notes are not secured by any floating security interest or special guarantee nor are the notes guaranteed by any other means or by any other financial entity.**

In connection with the issue of any note, the dealers, if any, or any person acting for such dealers, may engage in transactions that stabilize, maintain or otherwise affect the price of the notes, including purchases of notes to stabilize the market price to cover some or all of short position in the notes maintained by the dealers and imposition of penalty bids.

## TABLE OF CONTENTS

	<u>Page</u>
Disclosure Regarding Forward-Looking Statements .....	6
Available Information.....	7
Incorporation by Reference .....	7
Presentation of Financial and Other Information.....	8
Summary.....	10
Summary Financial and Other Information.....	17
Risk Factors.....	21
Capitalization.....	30
Use of Proceeds .....	31
Ratings.....	32
Exchange Rates .....	33
The Crisis and Recovery in Argentina.....	34
Selected Financial and Other Information.....	38
Management’s Discussion and Analysis of Financial Condition and Results of Operations .....	42
Business.....	66
Selected Statistical Information.....	80
Management .....	112
Principal Shareholders.....	126
Argentine Banking System and Regulation.....	128
Argentine Insurance System and Regulation.....	150
Certain Legal Aspects of Mortgages in Argentina.....	155
Description of the Notes.....	165
Subscription and Sale .....	193
Transfer Restrictions.....	196
Description of Capital Stock.....	199
Taxation.....	211
Independent Accountants .....	222
Legal Matters.....	222
General Information .....	223
Form of Pricing Supplement.....	224
Index to the Financial Statements.....	F-1

---

### DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

References in this offering memorandum to “we”, “us”, “our” and the “Bank” are to Banco Hipotecario S.A. References to “Note” or “note” are to notes offered by us under the program. All statements other than statements of historical facts contained in this offering memorandum including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe” or “continue” or the negative thereof or variations thereon or similar terminology. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we do not provide any assurance with respect to such statements. Because such statements are subject to risks and uncertainties, actual results may differ materially and adversely from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially and adversely include, but are not limited to:

- our decision to transform ourselves into a diversified financial services company;
- the severity and persistence of significant uncertainties affecting the Bank and the Argentine financial system;
- changes in general economic, business, political, legal, social or other conditions in Argentina or Latin America;
- changes in capital markets in general that may affect policies or attitudes toward lending to Argentina or Argentine companies;
- the ability to obtain additional debt or equity financing which will affect our ability to fund existing operations and to finance new activities;

- proposed acquisitions of other financial services companies and the integration of those operations into our businesses; and
- the other factors discussed under “Risk Factors” in this offering memorandum and the relevant pricing supplement.

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

### **AVAILABLE INFORMATION**

To permit compliance with Rule 144A in connection with resales of notes that are “restricted securities,” we will furnish, upon the request of a holder of a note or a prospective purchaser designated by such holder, the information required to be delivered by Rule 144A(d)(4) under the Securities Act unless, at the time of such request, we are either a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), or are furnishing to the U.S. Securities and Exchange Commission (the “SEC”) the information required by Rule 12g-32(b) under the Exchange Act.

We will furnish the Trustee in respect of each series of notes we issue under the program copies of our annual audited financial statements within 180 days after the end of each fiscal year, in the English and Spanish languages, prepared in conformity with Central Bank accounting rules (as defined herein). We will also furnish the Trustee English and Spanish language copies of our unaudited interim financial statements as of the end of each of the first three fiscal quarters of each year within 90 days after the end of each fiscal quarter prepared in accordance with Central Bank accounting rules.

Copy of this offering memorandum, any supplements thereto and any pricing supplement related to the series to be issued there under, may be obtained in the CNV’s website ([www.cnv.gov.ar](http://www.cnv.gov.ar))

### **INCORPORATION BY REFERENCE**

The following documents published or issued from time to time after the date of this offering memorandum and prior to the termination of the offering of a particular series of notes in respect of which this offering memorandum is delivered shall be deemed to be incorporated by reference into this offering memorandum and to be a part hereof from the date of publication or issuance of such documents:

- our most recently published audited annual financial statements and our published unaudited quarterly or semi-annual financial statements;
- any amendment or supplement to this offering memorandum that we prepare from time to time; and
- with respect to any series of notes, any pricing supplement in respect of such notes.

Any statement contained in this offering memorandum or in a document that is incorporated by reference shall be deemed modified or superseded to the extent a statement contained in any subsequent document that is also incorporated by reference modifies or supersedes any such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this offering memorandum. References to this offering memorandum shall be taken to mean this document and all the documents from time to time incorporated by reference herein and forming part hereof including any pricing supplement in respect of a particular series of notes.

We will make available, free of charge, a copy of any or all the documents incorporated by reference herein at the specified offices of the Paying Agents for the notes set forth on the back cover page of this offering memorandum or of the applicable pricing supplement, as relevant to each series of notes.

In addition, copy of our financial statements may be obtained in the CNV's website ([www.cnv.gov.ar](http://www.cnv.gov.ar)).

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Financial Statements

We prepare our financial statements in conformity with the accounting rules established by the *Banco Central de la República Argentina* (the "Central Bank"), which we refer to as "Central Bank accounting rules," through Circular CONAU 1, as supplemented and amended, which differ in certain significant respects from the standards generally accepted as in effect in Argentina from time to time, which we refer to as "Argentine GAAP", and from accounting principles generally accepted in the United States, which we refer to as "US GAAP". Our audited financial statements do not contain a reconciliation to Argentine GAAP or to U.S. GAAP of our shareholders' equity at December 31, 2005 or December 31, 2004, or of our net income for the years ended on such dates. Our shareholders' equity at December 31, 2005, if reconciled to Argentine GAAP or to U.S. GAAP, would have been materially lower than our shareholders' equity as presented under Central Bank accounting rules.

Effective January 1, 1995, pursuant to resolution No. 388 of the Central Bank's Superintendency of Financial and Exchange Institutions, we discontinued our practice of adjusting our financial statements for inflation. Effective January 1, 2002, however, as a result of the application of Communication "A" 3702 which established the repeal of any regime that did not allow companies to restate their accounting balances at period-end currency values, we resumed the application of the adjustment for inflation. To this end, we followed the restatement method established by Technical Pronouncement No. 6 of the Argentine Federation of Professional Councils in Economic Sciences ("FACPCE"), as amended by Technical Resolution No. 19, using the domestic wholesale price index, or WPI, published by the Argentine National Statistics and Census Institute ("INDEC"). The adjustment resulting from the changes in the purchasing power of the Argentine peso between January 1, 2002 and December 31, 2002 are stated in constant Argentine pesos as of December 31, 2002.

On March 25, 2003, Decree 664/03 rescinded the requirement that financial statements be prepared in constant currency, effective for financial periods on or after March 1, 2003 and on April 8, 2003 the Central Bank issued Communication "A" 3921 discontinuing inflation accounting effective as of March 1, 2003. As a result, our audited financial statements as of December 31, 2004 and 2005 do not include the effects of inflation.

### General

In this offering memorandum, when we refer to "peso," "pesos" or "Ps." we mean Argentine pesos; when we refer to "dollar," "dollars," "US dollars," "US\$" or "\$" we mean United States dollars; and when we refer to "bps" we mean basis points (each basis point equals one-hundredth of one percent). References in the table appearing in this offering memorandum to "NM" (not meaningful) are intended to indicate variations that are in excess of 300%.

Unless otherwise indicated, our assets and liabilities in foreign currency are valued at the exchange rate as of each relevant date or period-end according to the Central Bank reference exchange rate for dollars. In the case of dollars, Central Bank quotes for such exchange rates were Ps.1.00 = US\$1.00 until December 23, 2001. From December 24, 2001 to January 10, 2002, the exchange market was officially suspended. On January 11, 2002, the exchange rate in the free market began to float for the first time since April 1991. At that time, the free market rate was Ps.1.70 = US\$1.00 while the official market rate was Ps.1.40 = US\$1.00. On February 3, 2002, the Argentine government repealed the dual exchange rate system and since February 11, 2002, Argentina has had one freely floating exchange rate for all transactions. As of February 28, 2006, the exchange rate reported by the free exchange market was Ps.3.074 = US\$1.00, respectively.

You should not construe the translation of currency amounts in this offering memorandum to be representations that the peso amounts actually represent US dollar amounts or that any person could convert the peso amounts into US dollars at the rate indicated or at any other exchange rate. See "Exchange Rates" for information regarding recent developments in exchange rates.



Certain amounts which appear in this offering memorandum (including percentage amounts) may not sum due to rounding. Certain market share and other information included in this offering memorandum has been derived from information on the Argentine banking system published by the Central Bank. Information published by the Central Bank related to mortgage loans does not include information related to non-bank mortgage lenders such as provincial housing institutes and other non-banking institutions.

We have used a variety of different methodologies to classify the “non-performance” of our mortgage loans. As a result, financial and statistical information regarding non-performing loans at different dates are frequently not comparable. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Comparability of Data,” “Selected Statistical Information—Central Bank’s Loan Classification System and Reserves for Loan Losses” and “—Classification of Loan Portfolio According to Central Bank Criteria.”

## SUMMARY

*In this offering memorandum and the attached pricing supplement, “we,” “our,” “us” and “Bank” refer collectively to Banco Hipotecario S.A., the issuer of the notes and the sociedad anónima (stock corporation) formed in September 1997 to continue the business of Banco Hipotecario Nacional, and, where the context requires, to the Bank’s subsidiaries and Banco Hipotecario Nacional. This brief summary highlights selected information regarding the Bank. It may not contain all of the information that is important to you. For a more complete understanding, you should read carefully this entire document, including the attached pricing supplement to this offering memorandum and any documents to which we have referred you.*

### **Banco Hipotecario S.A.**

Established in 1886 by the Argentine government, we have historically been Argentina’s leading mortgage lender, provider of mortgage-related insurance and mortgage loan services. We were privatized in 1999. All of our operations and customers are located in Argentina, where we operate a nationwide network of 25 branches and three sales offices.

At December 31, 2005, we ranked second in the financial system in terms of shareholders’ equity, second in terms of net income and seventh in terms of total assets. As of December 31, 2005, our shareholders’ equity was Ps.2,217.1 million compared to Ps.1,959.2 million in 2004, our net income was Ps.253.3 million compared to Ps.279.1 million in 2004, and our assets amounted to Ps.8,160.7 million compared to Ps.9,134.9 million in 2004.

Our strategy to face the challenges of the new market conditions that currently prevail in Argentina is focused on leveraging our sound financial position and developing a diversified banking business built on our existing mortgage franchise. Since our debt restructuring in 2004, we made significant progress in our business diversification strategy, having actively pursued the growth of our lending business and the development of new business lines, focusing our efforts on implementing integrated technological solutions to enable our entry into retail banking, extending our marketing network and creating back-office services to support our diversified business strategy.

In 2004, as part of our business diversification strategy, we expanded our product offerings and began offering personal loans, resumed mortgage lending and launched pledge loans. We expanded our corporate loan product offerings and implemented certain customer loyalty strategies. In response to sustained demand for retail and wholesale time deposits and savings accounts, we started offering personal checking accounts and launched the Visa Banco Hipotecario credit card, which has steadily grown in terms of market penetration and transaction size. We also continued our strategy of expanding the offering of non-mortgage related insurance products we offer, including combined family, life, unemployment, health, personal accident and ATM robbery insurance.

In 2005, we continued expanding these business lines as non-financial private sector loans increased on Ps.363.2 million, or 20%, principally as a result of retail and consumer loan originations, which more than doubled when compared to 2004. Commercial loans to the private sector also increased by 19.2% during 2005 compared to 2004.

We seek to achieve a balanced portfolio of mortgage loans, consumer financing and corporate credit lines, while maintaining an adequate risk management policy.

As a result of our low leverage ratio, excess over minimum capital and cash requirements, conservative liquidity management policy, and balanced matching of financial assets and liabilities in terms of currency, term and interest rates, we have been able to pursue a consistent growth strategy. In addition, we have been able to repeatedly access the domestic and international capital markets through the issuance of several series of *Cédulas Hipotecarias* (securities backed by residential mortgage loans) in the local markets in an aggregate principal amount of approximately Ps.292.1 million.

We issued US\$150 million of our 9.75% notes due 2010 in November 2005 and re-opened such series of notes by issuing an additional US\$100 million in February 2006, becoming the first Argentine financial institution to

access the international capital markets after the crisis. In 2005, we also experienced continued increases in deposits, including savings accounts and time deposits. As a result of our diversified funding strategy, the weighted average life of our liabilities was 4.6 years and the amortization schedule of our existing debt is gradual, accruing interest at a weighted average rate of 6.3%. Our aggregate external funding at December 31, 2005 was approximately US\$1.0 billion and our liquid assets and cash generation capacity has reduced our re-financing risk.

In 2005, we posted a return on average shareholders' equity of 11.7% and administrative expenses over assets of 1.90%. We also decreased the overall level of our indebtedness, reducing by US\$473.3 million the amount of our outstanding debt, increasing our liquidity by US\$350 million, and increasing our solvency ratio from 21.7% in 2004 to 27.6% in 2005. We strengthened our balance sheet through the subscription of additional BODEN for US\$773.5 million par value. The ratio of our non-performing loans to total loans as of December 31, 2005 decreased to 7.44% from 11.32% as of December 31, 2004. Total loan reserves reached 106.5% at December 31, 2005 from 92.2% at December 31, 2004.

We believe that our operating performance and financial condition give us a competitive advantage over most other banks in Argentina and position us to expand our operations in the market, both through organic growth as well as by allowing us to have the financial strength to take advantage of potential strategic acquisition opportunities.

## THE PROGRAM

Issuer .....	Banco Hipotecario S.A.
Arrangers .....	Citigroup Global Markets Inc. and Deutsche Bank Securities Inc.
Amount .....	Up to US\$1,200,000,000 (or its equivalent in other currencies calculated as set out herein) aggregate principal amount of notes. Under the Program Agreement (defined in “Subscription and Sale”), we may increase the principal amount of notes we may issue under the program, subject to satisfaction of conditions set out therein and provided that the maximum aggregate amount we may have outstanding at any time may not exceed US\$1,200,000,000. We will treat notes issued at a discount or a premium as issued at their face amount for the purpose of calculating the aggregate principal amount of notes outstanding.
Currencies .....	We may issue notes in US dollars or any other currency as we may set forth in the pricing supplement related to a particular series (notes denominated in any such other currency being referred to herein as “Foreign Currency Notes”) and we may issue dual currency notes (“Dual Currency Notes”) or indexed notes, to the extent permitted by Argentine law (“Indexed Notes”), subject in each case to compliance with applicable Argentine and other legal and regulatory requirements.
Use of Proceeds .....	<p>We will use the net proceeds, if any, of the issuance of notes under the program in compliance with the requirements of Article 36 of the Negotiable Obligations Law (“Article 36”), Communication “A” 3046, as amended, of the Central Bank and other applicable regulations, as specified in the relevant pricing supplement. Article 36 requires that we use the proceeds for:</p> <ul style="list-style-type: none"> <li>• working capital;</li> <li>• investment in tangible assets located in Argentina;</li> <li>• refinancing of debt;</li> <li>• contributions to the capital of a controlled or related corporation, provided that the latter uses the proceeds of such contribution for the purposes specified in the points above; or</li> <li>• making loans in accordance with Central Bank regulations.</li> </ul> <p>Pending application of any proceeds, they may be invested in government securities and short-term investments.</p>
Maturities .....	We may issue notes with maturities of not less than 30 days and not more than 30 years from the date of issue as may be set forth in the applicable pricing supplement, subject, with respect to specific currencies, to compliance with applicable legal and regulatory requirements.
Issue Price .....	We may issue notes at their principal amount or at a discount or premium to their principal amount. We may issue partly paid notes, the issue price of which will be payable in two or more installments.

Method of Issue .....	<p>We will issue notes for cash or in exchange for other securities on a syndicated or non-syndicated basis in one or more series (each a “Series”), the notes of each Series being interchangeable with all other notes of that Series. We may issue each Series in tranches on the same or different issue dates. The terms of any such notes we issue and the current debt for which those notes are to be exchanged will be set forth in the pricing supplement applicable to those notes.</p> <p>We will set out the specific terms of each tranche in a pricing supplement to this offering memorandum.</p>
Interest and Other Payments .....	<p>Notes may bear interest at a fixed rate or at a margin above or below a floating rate based on LIBOR, United States Treasury rates or any other base rate, as we will specify in the relevant pricing supplement. Notes may also provide for payments on such other terms, or such additional rights, as may be specified in the relevant pricing supplement.</p>
Events of Default .....	<p>Pursuant to the terms of the indenture under which the notes are issued (the “Indenture”) events of default applicable to each series of notes will include:</p> <ul style="list-style-type: none"> <li>• our failure to pay principal of or interest on the notes (after a seven day grace period in case of principal and a fourteen day grace period in case of interest);</li> <li>• our failure to comply with the covenants set forth in the Indenture or the notes (after notice and applicable grace periods, in certain cases);</li> <li>• the failure of us or our Significant Subsidiaries (as defined therein) to pay when due any installment of interest on or principal of certain specified indebtedness in an aggregate unpaid amount of US\$20 million or more after any applicable grace period, or the occurrence of any other event which results in the acceleration of the maturity of any such specified indebtedness; or</li> <li>• certain events of bankruptcy or insolvency.</li> </ul> <p>The occurrence of an event of default may result in the acceleration of our obligations under the notes prior to maturity. See “Description of the Notes—Events of Default.”</p>
Other Covenants .....	<p>The Indenture contains certain covenants that limit our ability to incur liens, merge, consolidate, amalgamate or consummate certain asset sales. See “Description of the Notes—Covenants.”</p>
Taxation.....	<p>To the extent provided herein, we will make our payments in respect of notes without withholding, or deduction for, or on account of, any Argentine taxes. In the event that such deductions or withholdings are required, we shall pay such Additional Amounts (as defined herein) as will result in your receipt of the amounts that you would otherwise have received in respect of payments on your notes in the absence of such withholdings or deductions, subject to certain exceptions. See “Description of the Notes—Additional Amounts.”</p>

Denominations.....	We will issue the notes in such denominations as we and the relevant Dealer(s) may agree upon and specified in the relevant pricing supplement, subject to applicable laws and as set forth under “Transfer Restrictions.”
Redemption.....	We may redeem the notes at the redemption price or prices as we may specify in the applicable pricing supplement.
Early Redemption .....	At our option, we may redeem the notes before their maturity, for taxation reasons, as described under “Description of the Notes—Redemption and Repurchase—Early Redemption for Taxation Reasons” but will otherwise do so only to the extent specified in the applicable pricing supplement.
Listing.....	We may apply to have the notes listed on the Euro MTF and the Buenos Aires Stock Exchange, and to be admitted to trading at the MAE. We may also list the notes on such other stock exchange(s) as we and the relevant Dealer(s) may agree upon in relation to each issue. The pricing supplement relating to each issue will state whether or not the notes will be listed.
Selling Restrictions.....	There are restrictions on the sale of notes and the distribution of this offering memorandum and any other offering material. See “Subscription and Sale” and “Transfer Restrictions.” Additional restrictions will be described in the relevant pricing supplement, as applicable.
Status and Ranking .....	<p>The notes will constitute <i>obligaciones negociables</i> under the Negotiable Obligations Law. Unless otherwise specified in the applicable pricing supplement, the notes will be senior and, subject to applicable Argentine law, unsecured obligations and will rank at all times equal in right of payment to our other existing and future unsecured and unsubordinated indebtedness, other than our secured debt and our obligations preferred by statute or by operation of law.</p> <p>Argentine Law No. 24,485, in effect since April 18, 1995, as amended by Argentine Law No. 24,627 of February 21, 2002 and Law No. 25,780, among others, provides that in the event of our judicial liquidation or insolvency, all depositors, regardless of the type, amount or currency of their deposits, whether individuals or corporations, would have a general priority right over all of our other creditors (including holders of notes), with the exception of certain labor creditors and those creditors secured with a pledge or mortgage, to be paid out of 100% of the proceeds from the liquidation of our assets, according to the following order of priority:</p> <ul style="list-style-type: none"> <li>(i) deposits of up to Ps.50,000 per person or corporation (considering all amounts of such person/corporation deposited in one financial institution), or its equivalent in foreign currency, with priority right granted to one person per deposit. In the case of more than one account holder, the amount is pro rated among such account holders;</li> <li>(ii) all deposits greater than Ps.50,000 or its equivalent in foreign currency, and</li> <li>(iii) the liabilities derived from credit facilities granted to the financial institution, directly affecting the international trade.</li> </ul>

The deposits held by related parties of the financial institution do not benefit from the priority rights established pursuant to subsections (i) and (ii) above, pursuant to the relevant regulations issued by the Argentine Central Bank.

Form of Notes..... Unless otherwise permitted by applicable law and specified in the applicable pricing supplement, we may only issue notes in registered form, without interest coupons. Argentine law does not currently permit the issuance of securities in bearer form, with certain exceptions. We will issue notes sold in reliance on Rule 144A in book-entry form only, unless we specify otherwise in the pricing supplement applicable to that Series. Such notes will be represented by a Restricted Global Note deposited with or on behalf of DTC and registered in the name of its nominee.

We will issue notes sold outside the United States in reliance on Regulation S in book-entry form only, unless we specify otherwise in the pricing supplement applicable to that Series, and such notes will be represented by a Regulation S Global Note deposited with a custodian for, and registered in the name of, a nominee of DTC or Euroclear and Clearstream. On or prior to the 40th day after we complete the distribution of the notes of a Series, you may hold your beneficial interests in a Regulation S Global Note only through Euroclear or Clearstream.

We will issue notes to institutional accredited investors (as defined in Rule 501(a)(1), (2) or (3) under the Securities Act), if any, in certificated registered form only.

Beneficial interests in the Registered Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants (including Euroclear and Clearstream). Except as described herein, we will not issue certificated notes in exchange for beneficial interests in Registered Global Notes. See “Description of the Notes—General.”

Repurchases of Notes ..... We and our subsidiaries may at any time purchase any notes in the open market or otherwise at any price; provided that in determining whether the holders of the requisite principal amount of the notes outstanding have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, notes owned by us or our subsidiaries will not be considered as outstanding.

Governing Law ..... The Negotiable Obligations Law establishes the legal requirements necessary for the notes to qualify as *obligaciones negociables* under Argentine law. Argentine law governs our authorization, execution and delivery of the notes. All other matters in respect of the terms and conditions of the program and the notes are governed by and construed in accordance with New York law.

Trustee ..... HSBC Bank U.S.A., National Association

Clearing Systems ..... Euroclear, Clearstream and DTC or such other clearing system as may be approved by us and specified in the applicable pricing supplement.

**Risk Factors .....**

**See “Risk Factors” in this offering memorandum and the relevant pricing supplement for a description of the principal risks involved in making an investment in the notes.**

Placement of the Notes in Argentina ....

Notes to be issued under the program will be offered to the public in Argentina in accordance with General Resolution 368/2001 of the CNV, as amended. This offering memorandum will be available to the public in Argentina. The placement of notes in Argentina will take place in accordance with the provisions set forth in Section 16 of Law No. 17,811 and CNV regulations, through, among other things: (i) publishing of a summary of this offering memorandum and the pricing supplement related to a particular series of notes in the Buenos Aires Stock Exchange Gazette and in a newspaper of general circulation in Argentina; (ii) distribution of this offering memorandum and the relevant pricing supplement to the public in Argentina; (iii) road shows in Argentina for prospective investors; and (iv) conference calls with prospective investors in Argentina. Each pricing supplement will contain specific details of the public offering efforts to be undertaken, in accordance with Argentine law, as mentioned above, in connection with each issuance of notes.



## Summary Financial and Other Information

The following table presents summary historical financial and other information for the Bank as of the dates and for the periods indicated. The financial information as of December 31, 2005 and 2004 and for each year in the three-year period ended December 31, 2005 has been derived from our financial statements included in this offering memorandum, which have been audited by Price Waterhouse & Co. S.R.L., independent accountants. The independent auditor's report includes an explanatory paragraph related to the Bank's public sector exposure. See "Report of Independent Auditors" in our 2005 audited financial statements. The following data should be read in conjunction with, and is qualified in its entirety by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited financial statements that appear in this offering memorandum.

Our audited financial statements have been prepared in accordance with Central Bank accounting rules which differ in certain significant respects from Argentine GAAP and from U.S. GAAP. Our audited financial statements do not contain a reconciliation to Argentine GAAP or to U.S. GAAP of our shareholders' equity at December 31, 2005 or 2004 or net income for the fiscal periods ended on such dates. Our shareholders' equity at December 31, 2005 and 2004, if reconciled to Argentine GAAP or to U.S. GAAP, would have been materially lower than our shareholders' equity as presented under Central Bank accounting rules.

Effective January 1, 1995 pursuant to Resolution No. 388 of the Central Bank's Superintendency of Financial and Exchange Institutions, we discontinued our prior practice of adjusting our financial statements for inflation. Effective January 1, 2002, however, as a result of the application of Communication "A" 3702 which repealed any regime that did not allow companies to restate their accounting balances at period-end currency values, we resumed the application of the adjustment for inflation. On March 25, 2003, Decree 664/03 rescinded the requirement that financial statements be prepared in constant currency, effective for financial periods on or after March 1, 2003 and on April 8, 2003, the Central Bank issued Communication "A" 3921 discontinuing inflation accounting effective as of March 1, 2003. As a result, our audited financial statements as of December 31, 2005 and 2004 do not include the effects of inflation.

	2005	2005	2004	2003
	(in thousands of US Dollars, except ratios) (18)	(in thousands of pesos, except ratios) (17)		
<b>INCOME STATEMENT DATA:</b>				
Financial income	US\$ 242,854	Ps. 736,213	Ps. 721,407	Ps. 1,012,850
Financial expenditures(1)	(150,114)	(455,072)	(289,760)	(639,227)
Net financial income	92,740	281,141	431,647	373,623
Provision for losses on loans	(6,555)	(19,871)	(17,502)	(33,359)
Net contribution from insurance(2)	13,108	39,736	35,546	39,668
Other income from services, net(3)	6,380	19,340	27,507	1,116
Administrative expenses	(51,242)	(155,340)	(134,016)	(134,975)
Miscellaneous income (loss) net(4)	29,542	89,556	(54,135)	19,127
Income taxes	(212)	(642)	(8,831)	(1,700)
Monetary loss	—	—	—	(10,037)
Minority interest	(202)	(613)	(1,073)	931
Net income	US\$ 83,559	Ps. 253,307	Ps. 279,143	Ps. 254,394
<b>BALANCE SHEET DATA:</b>				
<i>Assets</i>				
Cash and due from banks	US\$ 19,315	Ps. 58,553	Ps. 62,351	Ps. 50,019
Banks and correspondents	77,935	236,260	279,411	364,256
Government and corporate securities	732,163	2,219,553	855,124	1,421,614
Mortgage-backed securities(5)	80,916	245,297	212,384	141,747
Loans:				
Pre-Restructuring Loans	267,836	811,945	957,031	1,077,217
Post-Restructuring Loans	223,478	677,473	675,431	764,113
Public sector loans	71,009	215,264	573,907	540,410
Corporate and other loans	191,515	580,577	357,727	237,663
Total loans(6)	753,838	2,285,259	2,564,096	2,619,403
Accrued interest receivable	31,165	94,476	291,698	271,337
Reserve for loan losses	(56,983)	(172,743)	(287,527)	(389,678)
Net loans	728,020	2,206,992	2,568,267	2,501,062
Other receivables from financial transactions:				
Loans in trust pending securitization(7)	36,987	112,127	255,622	308,187
Government compensatory bonds BODEN(8)	210,137	637,031	2,689,738	2,636,883
Other(9)	617,377	1,871,579	1,491,590	166,282
Reserve for loan losses	(10,943)	(33,175)	(47,305)	(30,129)
Total other receivables	853,558	2,587,562	4,389,645	3,081,223
Bank premises and equipment, net	37,344	113,207	115,834	127,038
Other assets	162,712	493,262	651,859	357,184
Total assets	US\$ 2,691,963	Ps. 8,160,686	Ps. 9,134,875	Ps. 8,044,143
<i>Liabilities and Shareholders' Equity</i>				
Borrowings from Central Bank	US\$ 165,059	Ps. 500,375	Ps. 2,228,182	Ps. 2,107,288
Other banks and international entities	118,829	360,229	509,665	706,777
Bonds	883,923	2,679,612	2,717,257	2,650,939
Deposits	174,068	527,688	230,374	128,843
Amounts payable under derivative instruments	311,172	943,318	927,989	2,820
Reserve for contingencies	69,187	209,740	275,781	287,279
Other liabilities(10)	238,366	722,609	286,467	480,180
Total liabilities	1,960,604	5,943,571	7,175,715	6,364,126
Shareholders' equity	731,359	2,217,115	1,959,160	1,680,017
Total liabilities and shareholders' equity	US\$ 2,691,963	Ps. 8,160,686	Ps. 9,134,875	Ps. 8,044,143

**SELECTED RATIOS:**

<b>Profitability</b>			
Return on average assets .....	3.3%	3.5%	3.3%
Return on average shareholders' equity .....	11.7%	14.4%	21.5%
Average rate of interest on mortgage loan portfolio (11) .....	9.9%	12.6%	12.7%
Net interest margin (12) .....	4.4%	6.4%	5.0%
Efficiency (13) .....	44.1%	25.6%	31.0%
Insurance loss ratio (14) .....	17.2%	18.2%	17.8%
<b>Asset Quality (15) (16)</b>			
Pre-1991 loans to individuals:			
Non-performing pre-1991 loans to individuals as a % of such loans .....	13.0%	20.7%	21.4%
Reserve for pre-1991 individual loan losses as a % of such loans .....	17.3%	21.7%	25.2%
Reserve for pre-1991 individual loan losses as a % of such non-performing loans .....	132.8%	104.8%	117.6%
Post-1991 loans to individuals:			
Non-performing post-1991 loans to individuals as a % of such loans .....	8.7%	16.6%	17.8%
Reserve for post-1991 individual loan losses as a % of such loans .....	5.5%	12.1%	10.4%
Reserve for post-1991 individual loan losses as a % of such non-performing loans .....	62.8%	73.2%	58.5%
<b>Total loans:</b>			
Non-performing loans as a percentage of total loans .....	7.4%	11.3%	13.9%
Reserve for loan losses as a percentage of total loans .....	7.9%	10.4%	13.0%
Reserve for loan losses as a percentage of non-performing loan .....	106.6%	92.2%	94.0%
<b>Charge-offs:</b>			
Charge-offs as a percentage of average loans .....	6.6%	4.3%	7.5%
Pre-1991 loans charge-offs as a percentage of average pre-1991 Loans .....	9.2%	6.1%	5.0%
Post-1991 loans charge-offs as a percentage of average post-1991 loans .....	8.1%	4.0%	13.1%
<b>Capital</b>			
Total shareholders' equity / Total assets .....	27.2%	21.4%	20.9%

- (1) Financial expenditures consist primarily of interest on deposits and other liabilities from financial transactions and contributions, and taxes on financial income.
- (2) Consists of insurance premiums earned *minus* insurance claims paid.
- (3) Income from services other than insurance premiums *minus* expenditures on services other than insurance claims.
- (4) Miscellaneous income *minus* miscellaneous expenses.
- (5) We hold subordinated bonds and certificates of participation issued in connection with our prior securitization activities.

- (6) Total loans exclude loans in trust pending securitization.
- (7) We transferred these loans to a trust pending their proposed securitization. Although not included in our “loans” for accounting purposes, these loans are included in our total loan portfolio for purposes of classifying our loans and establishing loan loss reserves in accordance with Central Bank requirements.
- (8) Includes the positive effects resulting from our option, pursuant to Central Bank Communication “A” 3800, to offset anticipated future losses by recognizing in advance compensation to be received from the Argentine government for our net financial position of foreign currency-denominated assets and liabilities at December 31, 2001 converted at the exchange rate of Ps.1.40 to US\$1.00.
- (9) Includes Ps.923.0 million and Ps.1,017.9 million of amounts receivable under derivative financial instruments for the years ended December 31, 2005 and 2004, respectively.
- (10) Includes Ps.76.3 million, Ps.60.6 million and Ps.188.5 million of accrued interest payable at December 31, 2005, 2004, and 2003, respectively.
- (11) Aggregate financial income earned on pre-1991 and post-1991 loans divided by average pre-1991 and post-1991 loans.
- (12) Net financial income divided by average interest earning assets. Included in financial income are net gains (losses) on government securities.
- (13) Administrative expenses divided by the sum of (i) net financial income, (ii) contribution from insurance and (iii) other income from services, net. Excludes severance payments and bonuses that totaled Ps.5.5 million, Ps.7.2 million and Ps.6.7 million for the years ended December 31, 2005, 2004, and 2003, respectively.
- (14) Insurance claims paid divided by insurance premiums earned.
- (15) Non-performing loans consist of (i) in the case of consumer loans, those classified under Central Bank regulations as “Deficient Performance,” “Difficult Collection,” “Uncollectible” and “Uncollectible for Technical Reasons” and (ii) in the case of commercial loans, those classified under Central Bank regulations as “Problematic,” “High Risk of Insolvency,” “Uncollectible” and “Uncollectible for Technical Reasons.” See “Selected Statistical Information—Central Bank’s Loan Classification System and Reserves for Loan Losses” in this offering memorandum. We have used a variety of different methodologies for classifying the “non-performance” of our mortgage loans. As a result, information regarding non-performing loans is not necessarily comparable from one period to another. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Comparability of Data,” “Selected Statistical Information—Central Bank’s Loan Classification System and Reserves for Loan Losses” and “—Classification of Loan Portfolio According to Central Bank Criteria” in this offering memorandum.
- (16) For purposes of Central Bank loan classifications and our establishment of loan loss reserves, total loans include accrued interest and loans in trust pending securitization.
- (17) Except for margins and ratios.
- (18) The US dollar convenience translation at year end December 31, 2005 is based on the peso/dollar exchange rate of Ps.3.0315=US\$1.00 prevailing as of December 31, 2005. Such translation should not be construed as a representation that the local currency amounts represent, or have been or could be converted into, US dollars at that or any other rate.

## RISK FACTORS

*Prior to investing in the notes, you should carefully consider the risks described below and the remaining information included in the pricing supplement and in this offering memorandum. We may face additional risks and uncertainties not currently known to us or which as of the date of this offering memorandum or as of the date of any applicable pricing supplement we might not consider significant, which may adversely affect our businesses. Overall, an investment in securities of issuers in emerging markets such as Argentina are subject to a higher degree of risk than an investment in securities of issuers in the United States and certain other markets.*

### Risks Related to Argentina

#### *General Overview*

Substantially all our operations, properties and customers are located in Argentina. As a result, the quality of our loan portfolio, our financial condition and the results of our operations are dependent upon the macroeconomic and political conditions prevailing in Argentina from time to time, including inflation rates, the exchange rates, changes to interest rates, changes to government policies, social instability, and other political, economic or international developments either taking place in, or otherwise affecting, Argentina. Although the economic situation in Argentina has improved, instability is still prevalent and it may continue to affect the economic situation.

#### *Argentina's current growth and stabilization may not be sustainable*

During 2001 and 2002, Argentina went through a period of severe political, economic and social crisis. Although the economy has recovered significantly over the past three years, uncertainty remains as to whether the current growth and relative stability is sustainable. The Argentine economy remains fragile, including for the following reasons:

- unemployment remains high;
- the availability of long-term fixed rate credit is scarce;
- investment as a percentage of GDP remains low;
- the current fiscal surplus could reverse into a fiscal deficit;
- inflation has risen recently and threatens to accelerate;
- the regulatory environment continues to be uncertain;
- the country's public debt remains high and international financing is limited; and
- the recovery has depended to some extent on:
  - high commodity prices, which are volatile and outside the control of the country; and
  - excess capacity, which has been currently considerably reduced.

Substantially all our operations, properties and customers are located in Argentina. As a result, our business is to a very large extent dependent upon the economic conditions prevailing in Argentina.

***Argentina's sovereign debt restructuring and the early prepayment to the IMF may create certain additional uncertainties, and the Argentine government may face future litigation, that could impact on Argentina's ability to obtain financing from international markets and economic growth.***

After defaulting on over US\$144.5 billion in external debt and as part of the debt restructuring process, the Argentine government consummated a debt exchange offer that concluded in the first quarter of 2005, with a rate of participation by bondholders of approximately 76% and an aggregate tendered amount of US\$62.3 billion. The settlement of the debt exchange was completed on June 2, 2005 due to a delay resulting from legal action by certain bondholders who did not participate in the exchange offer that attempted to attach the tendered bonds. Despite the high levels of acceptance of the exchange offer, the amounts not tendered for exchange totaled approximately US\$20 billion. Some bondholders in the United States, Italy and Germany filed legal actions against Argentina that are still pending resolution, and holdout creditors may initiate new suits in the future. Argentina's past default and its failure to restructure completely its remaining sovereign debt and fully negotiate with holdout creditors may prevent the government of Argentina from accessing the international capital markets for the foreseeable future. Moreover, after consummation of the exchange offer, Argentina's sovereign debt is still significant, and may inhibit economic growth and result in lower fiscal surpluses that could further restrict the ability to repay outstanding debt. Under these circumstances, we cannot assure you that the economy will not suffer additional shocks.

Following settlement of Argentina's sovereign debt restructuring, the IMF agreed to a one-year extension of Argentina's scheduled repayment of debt due to the IMF and on December 15, 2005, the Argentine government announced its intention to prepay all of its outstanding debt with the IMF, totaling US\$9.8 billion, using reserves available at the Central Bank. On January 3, 2006, the Argentine government made the prepayment of its outstanding debt with the IMF using foreign reserves of the Central Bank that were in excess of the amounts necessary to support 100% of Argentina's monetary base. The reduction of the Central Bank's foreign-currency reserves may weaken Argentina's ability to overcome economic deterioration in the future. Without international private financing Argentina may not be able to finance its obligations, and financing from multilateral financial institutions may be limited or not available. This could also inhibit the ability of the Central Bank to adopt measures to combat inflation and could adversely affect Argentina's economic growth and public finances, which could adversely affect our business, financial conditions or results of operations. In addition, without the restrictions on spending imposed by the IMF arrangement, Argentina may again experience significant government spending which could result in renewed inflation and other adverse economic consequences.

***The devaluation of the peso creates uncertainty regarding Argentina's economic future.***

Any future decrease in the value of the peso against the US dollar may have an adverse impact on our financial condition and results of operations. Subsequent to the devaluation of the peso in early 2002 and since the start of the economic crisis, there have been significant fluctuations in the value of the peso, which have resulted in repeated interventions by the Central Bank in the exchange market to stabilize the peso through purchases and sales of US dollars. As of February 28, 2006, the exchange rate as reported by Banco Nación was Ps.3.074 per U.S. dollar after a peak of Ps.3.90 per US dollar on June 25, 2002.

We cannot assure you that the policies implemented by the Argentine government in the future will stabilize the value of the peso against foreign currencies and therefore, the peso may continue to be subject to significant fluctuations and depreciations in the future, which might significantly and adversely affect our financial condition and the results of our operations.

***Inflation may escalate and further undermine the economy which could adversely affect our financial condition and results of operations.***

On January 24, 2002, the Argentine government amended the Central Bank's charter to allow it to print currency (without having to maintain a fixed and direct ratio with foreign currency and gold reserves), to make advances to the Argentine government to cover anticipated budget deficits and to provide financial assistance to financial institutions with liquidity problems. Furthermore, the devaluation of the peso created pressures on the domestic price system that generated inflation in 2002, after several years of price stability and price deflation. In 2003, the CER (as defined below) and the WPI posted increases of 3.7% and 4.3%, respectively, compared to 41.4% and 118.2%, respectively for 2002. During 2004, the CER increased by 6.1% and the WPI increased by 7.9%.

Although in the course of 2004 and 2005 inflation has been relatively stable, there has been major concern over the emergence of higher levels of inflation in 2006. As of the twelve months ended December 31, 2005, prices increased by a cumulative 12.3%, creating significant uncertainty regarding future levels of inflation. In January 2006, the CPI posted an increase of 1.3%, although this figure decreased to 0.4% in February 2006. If current uncertainty regarding the government's policies persists, it is likely that inflation rates will increase significantly, investment and economic activity will contract, unemployment will increase beyond current levels, tax collection will drop and the current fiscal surplus will erode, leading to fiscal deficit. Therefore, we cannot assure you that the value of the peso will not decline further or other factors will not result in higher rates of inflation. Any significant increase in the rate of inflation or additional volatility in the financial markets would undermine confidence in the country's banking sector and could have a material adverse effect on our financial condition and results of operations.

***Government measures designed to exercise greater control over funds entering the country may disrupt our ability to access the international capital markets.***

Argentina's Executive Branch enacted Decree No. 616/2005 to regulate funds coming into and flowing out of Argentina. The government has publicly announced that these measures are intended to maintain stability and support the economic recovery of the country. Significantly, these measures provide that 30% of the funds remitted into Argentina by nonresidents must be deposited in an account with a local financial institution as a US dollar deposit for one year, without accruing interest. Financial sector and nonfinancial private sector inflows originated from foreign financial borrowings that are invested in nonfinancial assets and are fully repaid (principal and interest) within 24 months from the date of borrowing are not subject to the foregoing deposit requirement. These measures may adversely affect our ability to access the international capital markets and to effectively invest the funds raised in any such financing, which could materially adversely affect our financial condition and results of operations.

***Elimination of measures intended to protect Argentine banks could have a material adverse effect on the financial system.***

Since January 2002, the Central Bank has been forced to grant substantial financial assistance to most banks in Argentina that was intended to shield banks from a further significant withdrawal of deposits, that resulted in a paralysis of virtually all commercial and financial activities, diminished spending and greatly increased social unrest, exacerbating the already severe recession. As a result, there was widespread public repudiation of, and protests directed against, financial institutions, which also had a material adverse effect on the Argentine financial system. If depositors seek to convert funds withdrawn from the banking system to foreign currency, the recent increase in the level of bank deposits could be quickly reversed, causing a sharp decline in the value of the peso against the US dollar and the Euro which would contribute to an increase in inflation. The resulting deterioration of liquidity of Argentine banks could result in the collapse of the financial system, further accelerating the depreciation of the peso. In the event the Central Bank provided financial assistance to financial institutions in order to avoid such collapse, liberated funds could flow into the foreign exchange market and cause further depreciation of the peso.

Starting in early 2002, a number of laws, decrees and regulations were established that modified the rights and obligations parties assumed in contracts. Additionally, some initiatives presented to the Congress require that the terms and conditions of our privatization be reviewed. We are therefore unable to ensure that there will be no new laws or regulations affecting our assets. Additionally, we cannot provide any assurance that, should that be the case, the Argentine government shall compensate us for the harmful effects of such laws and regulations. Likewise, we cannot assure you that no new laws will be enacted that may significantly affect the influence of the private sector on our control.

***The recovery of the financial system depends upon the ability of financial institutions, including us, to retain the confidence of depositors***

The massive withdrawal of deposits experienced by all Argentine financial institutions, including us, during 2001 and the first half of 2002 was largely due to the loss of confidence of depositors in the Argentine government's ability to repay its debts, including its debts within the financial system, and to maintain peso-dollar parity in the context of its solvency crisis. In addition, the measures taken by the government to protect the solvency of the

banking system, most significantly the limitation on the right of depositors to freely withdraw their money and the pesification of their dollar deposits, generated significant opposition directly against banks from depositors frustrated by losses of their savings.

Although short-term deposits have substantially recovered since 2002, the deposit base of the Argentine financial system, including ours, may be affected in the future by adverse economic, social and political events. If depositors once again withdraw significant holdings from banks, there will be substantial negative impact on the manner in which financial institutions, including us, conduct their business and on their ability to operate as financial intermediaries.

***We cannot assure you that future governmental policies will not significantly affect the economy as well as the operations of financial institutions.***

The Argentine government has historically exercised significant influence over the economy, and financial institutions, in particular, have operated in a highly regulated environment. In the aftermath of the Argentine crisis, the government promulgated numerous, far-reaching and, at times, inconsistent laws and regulations affecting the economy and financial institutions in particular. We cannot assure you that laws and regulations currently governing the economy or the banking sector will not continue to change in the future, or that any changes will not adversely affect our business, financial condition or results of operations as well as our ability to honor our foreign-currency denominated debt obligations, including the notes.

***Financial markets in Argentina may be affected by the volatility of emerging markets.***

Financial and securities markets in Argentina are influenced, to varying degrees, by the economic and market conditions in other emerging-market countries. Although economic conditions vary from country to country, investors' reactions to the events occurring in a certain country may substantially affect securities from issuers from other countries, including Argentina. We cannot assure you that even if Argentina's economy experiences continued stability and growth, it will not be adversely impacted by events affecting other emerging markets. The political and economic events that occurred in several emerging economies in the 1990s, including Mexico in 1994, the collapse of several Asian economies between 1997 and 1998, the economic crisis in Russia in 1998 and the Brazilian devaluation in January 1999 adversely impacted the Argentine economy. Shocks of a similar magnitude to the international markets in the future can be expected to affect adversely the Argentine economy and the financial system and therefore us.

***You may not be able to enforce your claims in Argentina.***

We are a commercial bank organized under the laws of Argentina. Most of our shareholders, directors, members of our supervisory committee, members of our executive committee and officers and certain experts named herein reside principally in Argentina and substantially all of our assets are located in Argentina. Under Argentine law, enforcement of foreign judgments would be recognized provided that the requirements of Articles 517 through 519 of the National Code of Civil and Commercial Procedure are complied with, including, that the judgment does not violate principles of public policy of Argentine law, as determined by the Argentine court. We cannot assure you that an Argentine court would not deem the enforcement of foreign judgments requiring us to make a payment under the notes in foreign currency outside of Argentina to be contrary to Argentine public policy, if at that time there are legal restrictions prohibiting Argentine debtors from transferring foreign currency outside of Argentina to cancel indebtedness. In addition, under Argentine law, the liquidation and commencement of bankruptcy proceedings against financial institutions, until their banking license has been revoked by the Central Bank, may only be commenced by the Central Bank.



## **Risks Related to the Bank**

***There are uncertainties in relation to the potential impact on us of Argentina's economic instability and the measures adopted by the Argentine government.***

Historically, we have engaged exclusively in mortgage lending and related services. We have traditionally been an active lender to individuals in the middle and lower-middle income segment of the population. All of our customers and operations are in Argentina, and due to our concentration in the recession-sensitive mortgage sector, we are highly vulnerable to adverse changes in economic conditions in Argentina. The last economic crisis had a material adverse effect on our liquidity, financial condition and results of operations. In addition, a number of governmental measures that apply to the financial sector have had a material adverse effect particularly on us, impairing our financial condition. As a result of the foregoing, we cannot give you any assurance that our financial condition and results of operations will not continue to be adversely affected by these circumstances or by future events.

***We strongly rely on mortgage lending and our ability to continue to develop our financial intermediation strategy depends in part on our ability to successfully implement our new business strategy.***

Historically, we have been engaged exclusively in mortgage lending and related activities. As a result, factors having an adverse effect on the mortgage market have a greater adverse impact on us than on our more diversified competitors. Due to our historic concentration in this recession-sensitive sector, we are particularly vulnerable to adverse changes in economic and market conditions in Argentina due to their adverse effect on (i) demand for new mortgage loans and (ii) the asset quality of outstanding mortgage loans. In light of the economic conditions in Argentina for the foreseeable future, we cannot rely exclusively on mortgage lending and related services. Accordingly, we have adapted our business strategy to confront the challenges of these new market conditions. Our ability to diversify our operation will depend on how successfully we diversify our product offerings and transform ourselves into a financial institution that no longer relies solely on mortgage lending.

In the past two years we have made several investments that are designed to enable us to develop retail banking activities. We must overcome significant challenges to achieve this goal including, among others, our lack of experience and client relationships outside the mortgage sector, the existence of large, well-positioned competitors, and significant political, regulatory and economic uncertainties in Argentina. As a result, we cannot give you any assurance that we will be successful in developing significant retail banking activities in the foreseeable future, if at all. If we are unable to effectively transition to a new and viable operating model, we cannot assure you that we will be able to comply with our debt obligations.

***We cannot assure you that our business or diversification strategy will not be impacted to the extent we require concurrence or approval of the Argentine government, with whom we have recently disagreed.***

We face significant challenges in seeking to develop our business plan through internal growth and therefore continuously explore the possibility of acquiring other banks or financial institutions or a significant portion of their assets and liabilities. The fast pace of change in the Argentine financial system may require that we take advantage of opportunities and make decisions on an expedited basis, which may prove difficult to accomplish given applicable regulatory requirements and the requirement that the Argentine government, as one of our shareholders, approve certain transactions. These acquisition opportunities may require us to incur in additional debt or other direct or contingent liabilities, and our ability to incur in such liabilities is limited. In addition, any such acquisitions would likely divert a significant amount of our management's attention to the integration of these businesses into our current operations.

The Argentine government, one of our major shareholders, has a "golden share", meaning that it has an effective veto in respect of transactions involving any merger we may contemplate in the future. See "Principal Shareholders—Voting Rights of Principal Shareholders". The Argentine government has also disagreed with us over other issues, including with respect to certain payments received by the members of our executive committee. If the Argentine Government and our principal shareholder do not reach agreement regarding our strategy, it may result in tension among our shareholders and we cannot assure you that this circumstance will not have an adverse effect on our business.

***Our mortgage loan portfolio is not adequately indexed for inflation and any significant increase in inflation could have a material adverse effect on our financial condition.***

In accordance with Emergency Decree 214/02 and its implementing regulations, pesified assets and liabilities were adjusted for inflation as of February 3, 2002 by application of the CER. On May 6, 2002, the Executive Branch issued a decree providing that mortgages originally denominated in US dollars and converted into pesos pursuant to Decree No. 214/2002 and on property constituting a borrower's sole family residence may be adjusted for inflation only pursuant to a coefficient based on salary variation, the CVS, which during 2002 was significantly less than inflation as measured by the WPI. Through December 31, 2002, the WPI and the CVS posted cumulative increases of 118.2% and 0.2%, respectively, and the CER increased 41.4%. During 2003, inflation rose by 4.3% as measured by the WPI, 3.7% as measured by the CER and 15.8% as measured by the CVS. As a result, only 10% of our mortgage loans are adjusted for inflation in accordance with the CER, 30% are adjusted in accordance with the CVS and 60% remain entirely unindexed. Additionally, Law No. 25,796, Section 1, repealed effective April 1, 2004, the CVS as an indexation mechanism applied to the relevant portion of our mortgage loans. The CVS increased until its repeal by 5.3% whereas the increase in CER was 5.5% as of December 31, 2004 and the WPI increased by 7.9%. During 2005 the CER was 18.06% and the WPI 10.7%.

Argentina's history prior to the adoption of the Convertibility Law raises serious doubts as to the ability of the Argentine government to maintain a strict monetary policy and control inflation. As a result of the high inflation in Argentina from 2002 onwards, our mortgage loan portfolio experienced significant erosion in value and if inflation were to increase significantly once again, it might continue to undergo major erosion in value. Accordingly, an increase in our funding and other costs due to inflation might not be offset by indexation which could adversely affect our liquidity and results of operations.

***Our ability to foreclose on mortgaged collateral has been materially limited.***

Like other mortgage lenders, the ability to foreclose on mortgaged collateral to recover on delinquent mortgage loans impacts on the conduct of our business. In February 2002, the Argentine government amended Argentina's Bankruptcy Law, suspending bankruptcies and foreclosures on real estate that constitutes the debtor's primary residence, initially for a six-month period and subsequently extended until November 14, 2002. By agreement reached between the Argentine Banking Association and the Argentine government, we and other large financial institutions "voluntarily" agreed to continue the suspension of bankruptcy and foreclosure proceedings due to the likelihood of significant social and political resistance to any collection efforts, particularly in light of social protests at the time directed at commercial banks. Since 2003, various laws have been approved in Argentina that have suspended our ability to foreclose on mortgaged properties many of which are still in effect.

We cannot assure you that the Argentine government will not enact new laws restricting our ability to enforce our rights as creditors. Any such limitation on our ability to successfully implement foreclosures could have a material adverse effect on our financial condition and results of operations. See "Certain Legal Aspects of Mortgages in Argentina".

***Given the current valuation criteria of the Central Bank for the recording of BODEN and other public securities on our balance sheets, our most recent financial statements may not be indicative of our current financial condition.***

We prepare our financial statements in accordance with Central Bank accounting rules which differ in certain material respects from Argentine GAAP. During 2002, Central Bank accounting rules were modified in several respects that materially increased certain discrepancies between Central Bank accounting rules and Argentine GAAP. In accordance with Central Bank accounting rules, our consolidated balance sheets as of December 31, 2005, December 31, 2004 and December 31, 2003 include US\$835.7 million, US\$288.3 million and US\$287.4 million, respectively, of BODEN issued by the Argentine government as compensation for pesification, as well as US\$210.1 million and US\$904.5 million as of December 31, 2005 and December 31, 2004 representing our right to acquire additional BODEN. Our consolidated balance sheets at December 31, 2005, December 31, 2004 and December 31, 2003 also include Ps.500.4 million, Ps.1,870.3 million and Ps.1,709.7 million, respectively, representing Central Bank borrowings we expect to incur to finance our acquisition of the additional BODEN.

Additionally, our most recent consolidated annual income statements include the accrual of interest to be received on BODEN not yet received and interest to be paid adjusted by CER on Central Bank borrowings.

In accordance with Central Bank accounting rules, the BODEN reflected on our consolidated balance sheets at December 31, 2004 and 2005 have been recorded at 100% of face value. However, the BODEN are unsecured debt obligations of the Argentine government, which has defaulted on a significant portion of its indebtedness although the government is current in respect of payments due on the BODEN and has restructured a substantial portion of its sovereign debt. As of December 31, 2005, the BODEN were not rated and were trading in the secondary market at a price of approximately US\$78.4119 for every US\$100 of nominal value. Carrying BODEN at a value equal to their full face value, which is in excess of their current market value, has the effect of increasing our total assets recorded on our consolidated balance sheet. In this important respect, our most recent consolidated interim and audited annual financial statements are not comparable to our historic financial statements and have been prepared according to accounting principles that differ materially from Argentine GAAP.

***Due to interest rate and currency mismatches of our assets and liabilities, we have significant currency exposure.***

At December 31, 2005, our foreign currency-denominated assets exceeded our foreign currency denominated liabilities by US\$60.4 million. Substantially all of our assets denominated in foreign currency consist of BODEN, while our liabilities in foreign currencies are denominated in both US dollars and Euros. This currency gap exposes us to risk of exchange rate volatility, which would negatively affect our financial results if the dollar were to depreciate against the peso and/or the Euro. We cannot assure you that the US dollar will not appreciate against the peso or that we will not be adversely affected by our exposure to risks of exchange rate fluctuations.

***Because of our large holdings of BODEN, we have significant exposure to the Argentine public sector.***

On December 23, 2001, the Argentine government declared the suspension of payments on most of its sovereign debt, which totaled approximately US\$144.5 billion as of December 31, 2001 and a substantial portion of which was restructured by the issuance of new bonds in mid-2005. Additionally, the Argentine government has incurred, and is expected to continue to incur, significant new debt obligations, including through the issuance of compensatory bonds to financial institutions. At December 31, 2005, we had recorded on our balance sheets a total of US\$1,045.8 million of BODEN issued by the Argentine Government. At that same date, we also had a total of approximately US\$50.2 million of guaranteed government loans. Consequently, we have significant exposure to the Argentine public sector. Further defaults by the Argentine government on its debt obligations, including the BODEN and other government securities held by us, would materially and adversely affect our financial condition and our ability to repay our debt obligations, including the notes.

***We operate in a highly regulated environment and our operations are subject to regulations adopted, and measures taken, by the Central Bank, the CNV and other regulatory agencies.***

Financial institutions are subject to significant regulation relating to all manner of functions that historically have been mandated by the Central Bank and other regulatory authorities. Measures adopted by the Central Bank have had, and future regulations may have, a material adverse effect on our financial condition and results of operations. Similarly, the CNV, which authorizes our offerings of securities and regulates the public markets in Argentina, has authority to impose sanctions on us and our board of directors for breaches of corporate governance. For instance, with regard to a proceeding initiated by the CNV, which is still pending resolution, see “Business—CNV Proceedings.” Under applicable law, the CNV has authority to impose penalties that range from minor regulatory enforcement sanctions to significant monetary fines, to disqualification of directors from performing board functions for a period of time, and (in an extreme case) prohibiting issuers from making public offerings, if they were to determine that there was wrongdoing or material violation of law. We cannot assure you as to the outcome of the pending proceeding nor what sanction, if any, the CNV might impose.

Particularly commencing in early 2002, laws and decrees have been implemented that have substantially altered the prevailing legal regime and obligations established in contract. In the recent past, various initiatives have been presented to Congress intended to reduce or eliminate the debt owed to us on a portion of our mortgage loan portfolio and there were even initiatives intended to review the terms pursuant to which Banco Hipotecario Nacional

was privatized. As a result, we cannot assure you that the legislative branch will not enact new laws that will have a significant adverse impact on our shareholders' equity or that, if this were to occur, the Argentine government would compensate us for the resulting loss.

***If holders of our bonds who did not participate in our debt restructuring are not required to accept the terms of our original offer and are successful in obtaining judgment against us, our liquidity could be adversely affected.***

During our restructuring process, we filed an *Acuerdo Preventivo Extrajudicial* (APE) which was intended to compel holders of our notes who did not participated in our debt restructuring to accept the terms of the original offer. Lower courts have ruled that the APE does not apply and cannot be used by financial institutions. We have appealed this court decision which is still pending resolution before the Argentine Commercial Court of Appeal. Currently, approximately 3.0% (approximately US\$40 million) of this debt remains outstanding. To the extent the APE is rejected or if the bondholders institute any type of proceeding against us seeking compensation or restitution in connection with the original bonds they hold, we may be required to make additional payments to settle or satisfy adverse judgments in respect of such claims and our liquidity may be adversely affected.

***The Argentine government may prevail in all matters to be decided at a general shareholders meeting.***

According to the Privatization law, there are no restrictions on the ability of the Argentine government to dispose of its Class A shares and all but one of such shares could be sold to third parties in a public offer and sale and in accordance with the Privatization Law. Our corporate bylaws provide that if at any time the Class A shares represent less than 42% of our aggregate voting stock, the Class D shares automatically lose their triple voting rights which may well result in the holders of our Class D shares losing their triple voting control. If this were to occur and if the Argentine government retained a sufficient number of Class A shares, the government would prevail in general meetings of shareholders (except for certain decisions that require qualified majorities) and exercise effective control over the decisions to be submitted to the consideration of such meetings.

***We will continue to consider acquisition opportunities, which may not be successful.***

We have expanded our business primarily through acquisitions. We will continue to consider attractive acquisition opportunities that we believe offer additional value and are consistent with our business strategy. We cannot assure you, however, that we will be able to identify suitable acquisition candidates or that we will be able to acquire promising target financial institutions on favorable terms. Additionally, our ability to obtain the desired effects of such acquisitions will depend in part on our ability to successfully complete the integration of those businesses. The integration of acquired businesses entails significant risks, including;

- unforeseen difficulties in integrating operations and systems;
- problems assimilating or retaining the employees of acquired businesses;
- challenges retaining customers of acquired businesses;
- unexpected liabilities or contingencies relating to the acquired businesses; and
- the possibility that management may be distracted from day-to-day business concerns by integration activities and related problem solving.

## **Risks Relating to the Notes**

***An active trading market for the notes may not develop.***

We may apply to list the notes of a series on the Euro MTF of the Luxembourg Stock Exchange. However, there can be no assurance that an active trading market for the notes of such series will develop, or, if one does

develop, that it will be maintained. If an active trading market for the notes of such series does not develop or is not maintained, the market price and liquidity of the notes of such series may be adversely affected.

***Holders of notes may find it difficult to enforce civil liabilities against us or our directors, officers and controlling persons.***

We are organized under the laws of Argentina and our principal place of business (*domicilio social*) is in Buenos Aires, Argentina. Most of our directors, officers and controlling persons reside outside the United States. In addition, all or a substantial portion of our assets and their assets are located outside of the United States. As a result, it may be difficult for holders of notes to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws. Based on the opinion of our Argentine counsel, there is doubt as to the enforceability against such persons in Argentina, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

***The notes will be subject to transfer restrictions and each series will be a new issue of securities for which there is no established trading market which could limit investors' ability to resell notes they purchase.***

The notes are being offered in reliance on an exemption from the registration requirements of the U.S. Securities Act of 1933. As a result, the notes may be transferred or resold only in transactions that are registered under the Securities Act or on the basis of an exemption from such registration and in compliance with any other applicable securities laws of other jurisdictions.

Each series of notes issued under the program may constitute a new issue of notes for which there may not be an established market. While a listing or quotation may be obtained in respect of an issue of notes, we cannot assure you that a trading market will develop for any series of notes or if one develops, that it can be maintained.

## CAPITALIZATION

The following table sets forth our short- and long-term indebtedness, shareholders' equity and total capitalization on a consolidated basis as of December 31, 2005 presented in accordance with Central Bank accounting rules. This table should be read in conjunction with, and is qualified in its entirety by "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements, all appearing elsewhere in this offering memorandum. There have been no material changes in our capitalization since December 31, 2005. See "Description of Capital Stock" for a discussion of our equity capitalization.

	<b>At December 31, 2005</b>
	(in thousands of pesos)
<b>Short-term indebtedness(1)</b>	
Deposits .....	Ps. 505,144
Bonds.....	130,847
Other banks and international entities .....	57,079
Total short-term indebtedness.....	693,070
<b>Long-term indebtedness(1)</b>	
Deposits .....	22,544
Borrowings from Central Bank .....	500,375
Bonds.....	2,548,765
Other banks and international entities .....	303,150
Total long-term indebtedness.....	3,374,834
Capital stock(2) .....	1,500,000
Paid-in capital.....	1
Restatement for capital stock.....	1,797,623
Earnings reserve(3).....	1,191,686
Accumulated deficit.....	(2,272,195)
Total shareholders' equity .....	2,217,115
Total capitalization .....	Ps. 6,285,019

- 
- (1) Short-term indebtedness is debt which has original maturity, or which can be put to us by our creditors, on or before a date within one year of the debt's original date of issue. Long-term debt is all other indebtedness.
- (2) Includes subscribed and paid-in capital of 150,000,000 common shares, par value Ps.10 per share.
- (3) Consists primarily of nondistributable legal reserves established pursuant to Central Bank regulations in an annual amount equal to 20.0% of net income plus or minus any adjustments in prior periods. The earnings reserve may only be utilized during periods when the Bank has net losses and has depleted its reserves. Consequently, no dividends could be distributed if the legal reserve has been affected.

## **USE OF PROCEEDS**

We will use any net proceeds of the issuance of notes under the program in compliance with the requirements of Article 36, Communication “A” 3046, as amended, of the Central Bank and other applicable regulations, as specified in the relevant pricing supplement. Article 36 requires that we use any proceeds for:

- working capital in Argentina;
- investments in tangible assets located in Argentina;
- refinancing of outstanding debt;
- contributions to the capital of a controlled or related corporation, provided that the proceeds are used as specified in the points above; or
- loan origination in accordance with Central Bank regulations.

Pending their application, proceeds, if any, may be invested in government securities and short-term investments.

## RATINGS

Our program is currently rated by Standard and Poor's and Fitch Argentina. Standard and Poor's rated our program, at domestic level, as "raA" and, at global scale, as "B", which represents obligations that show a strong payment capacity as compared to debt obligations of other issuers in Argentina; and certain vulnerability to a payment default, but the issuer retains its capacity to fulfill its financial commitments. The original notes subject to the debt exchange that did not participate therein and which account for approximately 3.0% of our total liabilities, are rated "SD" by Standard & Poor's, which represents a selective default by us in respect of those notes, but which evidences timely compliance with our obligations as compared to other issuers. In addition, Fitch Argentina rated the program, at domestic level, as "A(arg)" with negative outlook, which represents a strong credit quality and ability to pay principal and interest when due. Such ratings may be modified, suspended or withdrawn, and in no way represent a recommendation to buy, hold or sell the notes issued under the program. The methods of assigning ratings used by Argentine rating agencies may differ in important respects from those used by the rating agencies in the United States or other countries.



## EXCHANGE RATES

From April 1, 1991 until the beginning of 2002, the Convertibility Law established a fixed exchange rate under which the Central Bank was obliged to sell US dollars at a fixed rate of one peso per US dollar. On January 6, 2002, the Argentine Congress enacted the Public Emergency Law putting an end to the Convertibility Law and abandoning more than ten years of US dollar-peso parity and eliminating the requirement that the Central Bank's reserves in gold and foreign currency be at all times equivalent to 100% of the monetary base. The Public Emergency Law granted the Executive Branch the power to set the exchange rate between the peso and foreign currencies and to issue regulations related to the foreign exchange market. On the same day, the Executive Branch established a temporary dual exchange rate system. One exchange rate, applicable to exports and essential imports, was set at a rate of Ps.1.40 per dollar. The other, which was applicable to all other transactions, was a floating rate to be freely determined by the market. On February 3, 2002, the Executive Branch repealed the dual exchange system, and since February 11, 2002, there has been only one freely floating exchange rate for all transactions. On January 11, 2002, the Central Bank ended a banking holiday that it had imposed since December 21, 2001. The exchange rate began to float freely for the first time in eleven years at Ps.1.40 per dollar. The shortage of dollars and its heightened demand caused the peso to further devalue significantly. As a result, the Central Bank has intervened on several occasions since that date by selling dollars in order to lower the exchange rate. However, the Central Bank's ability to support the peso by selling US dollars is restricted by its limited US dollar reserves.

In preparing its financial information, the Bank used the US dollar-peso exchange rate as reported by the Central Bank, which varies in certain respects from the rates reported by Banco de la Nación Argentina ("Banco Nación"). On February 28, 2006, the peso/US dollar exchange rate was approximately Ps.3.074 per dollar as reported by Banco Nación and Central Bank.

The devaluation of the peso has had a material adverse effect on our results of operations and financial condition. Future devaluations of the peso relative to the US dollar would further adversely affect our ability to meet our US dollar-denominated obligations, including the notes.

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

	<b>Exchange Rate of US\$1.00</b>			
	<b>Low</b>	<b>High</b>	<b>Average (1)</b>	<b>Period End</b>
	(pesos per US dollar)			
<b><u>Year Ended December 31</u></b>				
1991 to 2001.....	1.00	1.00	1.00	1.00
<b><u>Year Ended December 31</u></b>				
2002.....	1.40	3.90	3.16	3.37
2003.....	2.67	3.32	2.94	2.93
2004.....	2.80	3.06	2.94	2.98
2005.....	2.91	3.05	2.97	3.03
<b><u>Month</u></b>				
January 2006.....	3.03	3.06	3.05	3.064
February 2006.....	3.064	3.051	3.08	3.073
March 2006 (through March 20).....	3.083	3.027	3.055	3.074

Source: Banco Nación.

(1) Represents the daily average exchange rate during each of the relevant periods.

## THE CRISIS AND RECOVERY IN ARGENTINA

### OVERVIEW

From December 2001 through most of 2002, Argentina experienced an unprecedented crisis that virtually paralyzed the country's economy and led to radical changes in government policies. Over the past three years, the Argentine economy has recovered significantly from the crisis and the business environment has largely stabilized. Argentina's banking sector in particular was severely affected by the crisis and regulatory changes, as described below. However, the current recovery has led to improvements in the performance of the banking sector, and we believe sets the stage for growth opportunities in the industry. The table below sets forth information about certain economic indicators in Argentina for the years ended:

	2000	2001	2002	2003	2004	2005
GDP growth .....	(0.8)%	(4.4)%	(10.9)%	8.8%	9.0%	9.0%(1)
Primary balance(2) (as % of GDP) .....	0.4	(1.0)	0.7	3.2	5.7	4.5
Total public debt (as % of GDP) .....	45.7	53.7	164.6	139.5	127.0	72.5(3)
Net exports (US\$ millions) .....	1,166.5	6,277.1	16,719.8	15,731.5	12,103.0	11,321.2
Total deposits (as % of GDP)(4) .....	30.3	29.4	24.2	22.8	24.2	24.1
Private sector loans (as % of GDP)(4) .....	23.3	21.6	14.8	9.1	8.2	9.1
Unemployment rate .....	15.4	17.4	19.7	17.3	13.6	10.1
Poverty index .....	29.3	34.1	52.0	50.9	42.3	38.5(5)
Consumer price inflation .....	(0.7)	(1.5)	41.0	3.7	6.1	12.3
Average nominal exchange rate (in pesos versus US\$).....	1.00	1.00	3.20	2.95	2.95	2.92

Source: INDEC and Central Bank

- (1) Central Bank survey as of January 2006.
- (2) Fiscal balances of federal and provincial governments (before debt service).
- (3) Total public debt at June 30, 2005 divided by GDP for the 12 months ended June 30, 2005.
- (4) Twelve-month average.
- (5) At June 30, 2005.

Notwithstanding the recent improvements to the Argentine economy and the banking sector, and their current prospects for growth, conditions in Argentina and its banking sector remain subject to significant uncertainties and risks. For more information, see "Risk factors".

### HOW THE ECONOMIC CRISIS DEVELOPED

From the last quarter of 1998 through the first six months of 2002, Argentina suffered a severe economic recession. Structural barriers, including Argentina's trade and fiscal deficits and the rigidity of its fixed exchange rate system (known as the convertibility regime), limited the Argentine government's ability to stimulate the economy. Furthermore, the country's excessive reliance on foreign capital, combined with its mounting external debt, resulted in a deep contraction of the economy and banking and fiscal crises when capital started to leave the country.

In 2001 in particular, economic conditions deteriorated significantly, as capital flight totaled US\$14 billion and approximately 20% of the government's budget was directed to servicing the public debt. In the second half of 2001, the growing perception that a devaluation of the peso was imminent triggered a massive run on bank deposits. The impact on the financial system was severe and from December 2000 to November 2001 total deposits fell by 21.0%. In a last bid to safeguard the convertibility regime and avert the collapse of the banking sector, during December 2001, the Argentine government imposed strict per-person limits on bank withdrawals (known as the *corralito*). The economic crisis and the restrictions on bank withdrawals caused massive social unrest, which led to a political crisis.

In response to the political and economic crisis, the Argentine government undertook a number of far-reaching initiatives that radically changed the monetary and foreign exchange regime and the regulatory environment for conducting business in Argentina, creating even greater financial uncertainty and virtually paralyzing all commercial and financial activities in Argentina in 2002.

#### *Sovereign default*

As a consequence of the government's declining revenues, substantial debt service obligations, growing deficit and diminishing access to the international capital markets, Argentina suspended payment on a significant portion of its public debt in December 2001. The government's default both closed Argentina's access to foreign financings and lowered the market value of government bonds.

#### *Peso devaluation and inflation*

In January 2002, the Argentine government passed the Public Emergency Law and Reform Law, which abolished the fixed parity between the peso and the U.S. dollar, bringing to an end the convertibility regime that had been in effect for ten years. The peso devalued dramatically and its devaluation had a substantial and negative effect on the Argentine economy and on the financial condition of individuals and businesses. The devaluation resulted in many Argentine businesses defaulting on their foreign currency debt obligations, significantly reduced real wages and crippled businesses that depended on domestic demand, such as utilities and the financial services industry. The devaluation of the peso created pressure on the domestic pricing system and triggered very high rates of inflation. During 2002, wholesale inflation reached a rate of approximately 118% and consumer prices rose 41%. As a result of the devaluation of the peso and the high level of inflation, combined with economic uncertainty, banks virtually suspended all origination of credit products in 2002.

#### *Rescheduling of deposits and asymmetric pesification*

From January 30, 2002 to April 30, 2002, as part of the Public Emergency Law and Reform Law, the government converted U.S. dollar-denominated deposits and dollar-denominated obligations that were governed by Argentine law into pesos, in a process known as pesification. The pesification converted U.S. dollar-denominated obligations and U.S. dollar-denominated deposits into pesos at different exchange rates (the so called "asymmetric pesification"). In addition, stronger restrictions were imposed on bank withdrawals (known as the *corralón*). Asymmetric pesification had dramatic effects on the composition of banks' balance sheets. Bank assets (*i.e.*, loans) and liabilities (*i.e.*, deposits) were converted at different exchange rates. In addition, in some instances, bank assets and liabilities were subject to different price indexes, the so-called "asymmetric indexation".

#### *Deterioration of loan portfolio*

Both the government and the banks created mechanisms to facilitate the repayment of loans, which generated a significant reduction in the volume of outstanding credit and deposits. Some borrowers who did not or could not avail themselves of these repayment mechanisms began to default on their loans, increasing the ratio of non-performing lending of the financial system to 18.1% by December 2002 and 20% for private banks.

#### *Compensation to financial institutions*

The asymmetric conversion of loans and deposits into pesos, the increase in banks' non-performing loans and the decline in value of bank holdings of government debt, left much of the financial sector virtually insolvent. To help prevent widespread bank insolvencies, the Argentine government pledged to provide offsetting compensation to banks. The general principles of the compensation scheme were to (1) maintain the peso value of each bank's net worth, and (2) leave the banks hedged in terms of currency. To that end, the Argentine government issued two types of bonds to banks:

- a bond denominated in pesos (*BODEN 2007*) to compensate for losses linked to asymmetric pesification; and

- a bond denominated in dollars (*BODEN 2012*) that the Central Bank offered to affected banks at a discounted price of Ps.1.40 plus CER indexation, to US\$1.00, to compensate for the consequences of creating a mismatch between a bank's dollar and peso position as a result of pesification.

### *Amparos*

In response to pesification and the forced rescheduling of their deposits and other measures, many depositors sued banks, primarily through the use of an action to enforce constitutional rights known as *amparos*. By December 31, 2005, there were approximately 322,500 *amparos* filed against financial institutions, totaling Ps.22.4 billion. In some of these cases, lower court judges issued injunctions and ordered banks to return deposits in U.S. dollars or in pesos, but at the prevailing market exchange rate, resulting in significant losses for banks. Many *amparos* remain pending and the Argentine Supreme Court has not yet made a final determination as to the constitutionality of the measures adopted by the Argentine government.

### *Liquidity assistance*

The Argentine government modified the Central Bank's charter so as to facilitate liquidity assistance to the financial sector, providing Ps.18.5 billion to the financial system during 2002. Despite this assistance, the financial system experienced losses and consolidation after the crisis, with 17 entities being liquidated and closed, and the loss of nearly 17,000 jobs. The capital outflow continued depleting international reserves, which ended the year at Ps.22.5 billion.

### *Special accounting rules for the financial system*

In order to give the financial system time to recover from the extreme negative effects of the Argentine government's response to the crisis, the Central Bank issued rules that provided for the deferral of losses incurred. The Central Bank allowed banks to register most government bonds and loans held before the devaluation and those received as compensation at higher than fair values. The carrying values of these government bonds and loans are being gradually marked to market until June 2008. The Central Bank is also allowing banks to register the amount that banks have paid under *amparos* as an intangible asset, to be amortized over five years, as a form of loss deferment. By the end of 2008, substantially all of the *amparo*-related losses will have been fully amortized.

## **ECONOMIC STABILIZATION**

The economy began to stabilize by April 2002 with improvement of economic variables during the second half of the year, mainly as a result of expanding exports and decreasing imports. While the devaluation of the peso had significant adverse consequences, it did result in a positive balance for Argentina's current account, which in turn fostered a reactivation of domestic production. The sharp decline in the peso's value against foreign currencies, together with a decline in production costs in U.S. dollar terms, made Argentine products relatively inexpensive in the export markets. At the same time, the costs of imported goods increased significantly due to the devaluation of the peso, forcing Argentine consumers to substitute their purchase of foreign goods with domestic products, substantially boosting domestic demand for domestic products.

Using a new short-term financial instrument known as a *LEBAC (Letras del Banco Central)* or Central Bank external bills, the Central Bank was able to absorb the excess liquidity generated through its temporary advances to the financial sector. As a result, volatility in the peso-U.S. dollar exchange rate was reduced, inflationary pressures declined and interest rates gradually stabilized, after having increased sharply following the end of the convertibility regime.

During the second half of 2002, Argentina's GDP increased 4.4%, and the consumer price index inflation was 8.0% for the six-month period ended December 31, 2002, compared to 30.5% for the six-month period ended June 30, 2002. However, despite the improvement in economic conditions during the second half of 2002, Argentina's overall GDP contracted 10.9% for the full year, receding to 1993 values, investment collapsed and inflation increased sharply. The main impact of the crisis was the tremendous social hardship. Unemployment rose

from 12.9% to 20.4% between 1998 and 2002, real wages declined 24% in 2002, and the poverty index increased from 29% of the population in 2000 to 52% in 2002.

### **Economic recovery and improvements in the banking sector**

In May 2003, Argentina's political environment was reorganized and the economy continued to show indications of recovery, as GDP grew 8.8% in 2003. A combination of sound fiscal and monetary policies kept consumer price inflation under control at 3.5% in 2003. During 2003, Argentina moved towards normalizing its relationship with the IMF and eliminated all deposit restrictions. The trade balance experienced a sustained surplus, aided by the rise in commodity prices and export volumes. Meanwhile, social indicators improved. The unemployment rate decreased to 17.3% in 2003 and real wages began to recover.

The financial system also began to gradually regain the public's trust and the recovery also improved the profitability of the financial system. Expectations regarding peso appreciation and low inflation discouraged investments in other currencies and, except for the stock exchange and real estate markets, which saw significant price increases, no worthwhile investment options emerged. As a result, savings moved back into time deposits, now at a very low annual interest rate (generally in the 4-5% range), leading to the current environment, which is characterized by high liquidity and low interest rates.

### **Growth consolidation**

During 2004 and 2005, the Argentine economy continued to grow. Pursuant to information furnished by the Central Bank, GDP grew 9.0% in 2004 and 2005, respectively. Inflation remained relatively low in 2004, and it increased to 12.3% during 2005. The increase in total deposits continued in 2004, growing Ps.22 billion, or 23%, as Argentina's deposits to GDP ratio again approached its pre-crisis level. This trend changed during 2005, with the private sector driving total deposit growth with a 21% increase during the period. Meanwhile, a resurgence of loan volume began in the second half of 2004, reversing the downward trend for the first time since early 2000, which had bottomed out at approximately 7.7% of GDP in June 2004, and rose to 8.7% by December 2004 (a significant increase taking into account the accompanying high rate of GDP growth).

Public sector exposure (without LEBAC) in the balances of banks, which came to represent over 50% of assets in the financial system at its highest point, declined to 32.7% by the end of 2005. This decrease is explained by the gradual marking to market of public sector securities, as well as the increase in the private sector loan portfolio. At the same time, the intangible asset in respect of *amparos* has decreased as the intangible asset began to be amortized over five years. We estimate that if the entire portfolio of public sector exposure of the financial system were marked to market, based on December 31, 2005 figures, approximately Ps.7 billion of assets would be written down, and assuming the intangible asset recorded in respect of *amparos* has no value, an approximately Ps.5 billion writedown, the adjusted net worth of the financial system would be approximately Ps.15 billion.

### **Restructuring of Argentina's public debt**

In June 2005, the government completed a restructuring of the federal government's public debt, which had been in default since December 2001. Argentina reduced its outstanding principal amount of public debt from US\$191.3 billion to US\$126.6 billion and negotiated lower interest rates and extended payment terms. Approximately US\$19.5 billion of defaulted bonds held by creditors who did not participate in the exchange offer remain outstanding. Argentina's risk profile has improved substantially. For example, based on its U.S. dollar-denominated BODEN 2012 bond spread over the comparable U.S. treasury note, Argentina's country risk premium decreased from 662 basis points as of September 30, 2004 to 471 basis points as of December 31, 2005.

On January 3, 2006, Argentina repaid to the IMF all amounts owing under outstanding credit lines.

## SELECTED FINANCIAL AND OTHER INFORMATION

The following table presents selected historical financial and other information for the Bank as of the dates and for the periods indicated. The financial information as of December 31, 2005 and 2004 and for each year in the three-year period ended December 31, 2005 has been derived from our financial statements included in this offering memorandum, which have been audited by Price Waterhouse & Co. S.R.L., independent accountants. The independent auditor's report includes an explanatory paragraph related to the Bank's public sector exposure. See "Report of Independent Auditors" in our 2005 audited financial statements. The following data should be read in conjunction with, and is qualified in its entirety by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited financial statements that appear in this offering memorandum.

Our audited financial statements have been prepared in accordance with Central Bank accounting rules which differ in certain significant respects from Argentine GAAP and from U.S. GAAP. Our audited financial statements do not contain a reconciliation to Argentine GAAP or to U.S. GAAP of our shareholders' equity at December 31, 2005 or 2004 or net income for the fiscal periods ended on such dates. Our shareholders' equity at December 31, 2005 and 2004, if reconciled to Argentine GAAP or to U.S. GAAP, would have been materially lower than our shareholders' equity as presented under Central Bank accounting rules.

Effective January 1, 1995 pursuant to Resolution No. 388 of the Central Bank's Superintendency of Financial and Exchange Institutions, we discontinued our prior practice of adjusting our financial statements for inflation. Effective January 1, 2002, however, as a result of the application of Communication "A" 3702 which repealed any regime that did not allow companies to restate their accounting balances at period-end currency values, we resumed the application of the adjustment for inflation. On March 25, 2003, Decree 664/03 rescinded the requirement that financial statements be prepared in constant currency, effective for financial periods on or after March 1, 2003 and on April 8, 2003, the Central Bank issued Communication "A" 3921 discontinuing inflation accounting effective as of March 1, 2003. As a result, our audited financial statements as of December 31, 2005 and 2004 do not include the effects of inflation.

	2005	2005	2004	2003
	(in thousands of US Dollars, except ratios) (18)	(in thousands of pesos, except ratios) (17)		
<b>INCOME STATEMENT DATA:</b>				
Financial income	US\$ 242,854	Ps. 736,213	Ps. 721,407	Ps. 1,012,850
Financial expenditures(1)	(150,114)	(455,072)	(289,760)	(639,227)
Net financial income	92,740	281,141	431,647	373,623
Provision for losses on loans	(6,555)	(19,871)	(17,502)	(33,359)
Net contribution from insurance(2)	13,108	39,736	35,546	39,668
Other income from services, net(3)	6,380	19,340	27,507	1,116
Administrative expenses	(51,242)	(155,340)	(134,016)	(134,975)
Miscellaneous income (loss) net(4)	29,542	89,556	(54,135)	19,127
Income taxes	(212)	(642)	(8,831)	(1,700)
Monetary loss	(202)	(613)	(1,073)	(10,037)
Minority interest				931
Net income	US\$ 83,559	Ps. 253,307	Ps. 279,143	Ps. 254,394
<b>BALANCE SHEET DATA:</b>				
<i>Assets</i>				
Cash and due from banks	US\$ 19,315	Ps. 58,553	Ps. 62,351	Ps. 50,019
Banks and correspondents	77,935	236,260	279,411	364,256
Government and corporate securities	732,163	2,219,553	855,124	1,421,614
Mortgage-backed securities(5)	80,916	245,297	212,384	141,747
Loans:				
Pre-Restructuring Loans	267,836	811,945	957,031	1,077,217
Post-Restructuring Loans	223,478	677,473	675,431	764,113
Public sector loans	71,009	215,264	573,907	540,410
Corporate and other loans	191,515	580,577	357,727	237,663
Total loans(6)	753,838	2,285,259	2,564,096	2,619,403
Accrued interest receivable	31,165	94,476	291,698	271,337
Reserve for loan losses	(56,983)	(172,743)	(287,527)	(389,678)
Net loans	728,020	2,206,992	2,568,267	2,501,062
Other receivables from financial transactions:				
Loans in trust pending securitization(7)	36,987	112,127	255,622	308,187
Government compensatory bonds BODEN(8)	210,137	637,031	2,689,738	2,636,883
Other(9)	617,377	1,871,579	1,491,590	166,282
Reserve for loan losses	(10,943)	(33,175)	(47,305)	(30,129)
Total other receivables	853,558	2,587,562	4,389,645	3,081,223
Bank premises and equipment, net	37,344	113,207	115,834	127,038
Other assets	162,712	493,262	651,859	357,184
Total assets	US\$ 2,691,963	Ps. 8,160,686	Ps. 9,134,875	Ps. 8,044,143
<i>Liabilities and Shareholders' Equity</i>				
Borrowings from Central Bank	US\$ 165,059	Ps. 500,375	Ps. 2,228,182	Ps. 2,107,288
Other banks and international entities	118,829	360,229	509,665	706,777
Bonds	883,923	2,679,612	2,717,257	2,650,939
Deposits	174,068	527,688	230,374	128,843
Amounts payable under derivative instruments	311,172	943,318	927,989	2,820
Reserve for contingencies	69,187	209,740	275,781	287,279
Other liabilities(10)	238,366	722,609	286,467	480,180
Total liabilities	1,960,604	5,943,571	7,175,715	6,364,126
Shareholders' equity	731,359	2,217,115	1,959,160	1,680,017
Total liabilities and shareholders' equity	US\$ 2,691,963	Ps. 8,160,686	Ps. 9,134,875	Ps. 8,044,143

	2005	2004	2003
<b>SELECTED RATIOS:</b>			
<b>Profitability</b>			
Return on average assets .....	3.3%	3.5%	3.3%
Return on average shareholders' equity .....	11.7%	14.4%	21.5%
Average rate of interest on mortgage loan portfolio (1) .....	9.9%	12.6%	12.7%
Net interest margin (12) .....	4.4%	6.4%	5.0%
Efficiency (13) .....	44.1%	25.6%	31.0%
Insurance loss ratio (14) .....	17.2%	18.2%	17.8%
<b>Asset Quality (15) (16)</b>			
Pre-1991 loans to individuals:			
Non-performing pre-1991 loans to individuals as a % of such loans .....	13.0%	20.7%	21.4%
Reserve for pre-1991 individual loan losses as a % of such loans .....	17.3%	21.7%	25.2%
Reserve for pre-1991 individual loan losses as a % of such non-performing loans .....	132.8%	104.8%	117.6%
Post-1991 loans to individuals:			
Non-performing post-1991 loans to individuals as a % of such loans .....	8.7%	16.6%	17.8%
Reserve for post-1991 individual loan losses as a % of such loans .....	5.5%	12.1%	10.4%
Reserve for post-1991 individual loan losses as a % of such non-performing loans .....	62.8%	73.2%	58.5%
<b>Total loans:</b>			
Non-performing loans as a percentage of total loans .....	7.4%	11.3%	13.9%
Reserve for loan losses as a percentage of total loans .....	7.9%	10.4%	13.0%
Reserve for loan losses as a percentage of non-performing loan .....	106.6%	92.2%	94.0%
<b>Charge-offs:</b>			
Charge-offs as a percentage of average loans .....	6.6%	4.3%	7.5%
Pre-1991 loans charge-offs as a percentage of average pre-1991 Loans .....	9.2%	6.1%	5.0%
Post-1991 loans charge-offs as a percentage of average post-1991 loans .....	8.1%	4.0%	13.1%
<b>Capital</b>			
Total shareholders' equity/Total assets .....	27.2%	21.4%	20.9%

(1) Financial expenditures consist primarily of interest on deposits and other liabilities from financial transactions and contributions, and taxes on financial income.

(2) Consists of insurance premiums earned *minus* insurance claims paid.



- (3) Income from services other than insurance premiums *minus* expenditures on services other than insurance claims.
- (4) Miscellaneous income *minus* miscellaneous expenses.
- (5) We hold subordinated bonds and certificates of participation issued in connection with our prior securitization activities.
- (6) Total loans exclude loans in trust pending securitization.
- (7) We transferred these loans to a trust pending their proposed securitization. Although not included in our "loans" for accounting purposes, these loans are included in our total loan portfolio for purposes of classifying our loans and establishing loan loss reserves in accordance with Central Bank requirements.
- (8) Includes the positive effects resulting from our option, pursuant to Central Bank Communication "A" 3800, to offset anticipated future losses by recognizing in advance compensation to be received from the Argentine government for our net financial position of foreign currency-denominated assets and liabilities at December 31, 2001 converted at the exchange rate of Ps.1.40 to US\$1.00.
- (9) Includes Ps.923.0 million and Ps.1,017.9 million of amounts receivable under derivative financial instruments for the years ended December 31, 2005 and 2004 respectively.
- (10) Includes Ps.76.3 million, Ps.60.6 million and Ps.188.5 million of accrued interest payable at December 31, 2005, 2004 and 2003, respectively.
- (11) Aggregate financial income earned on pre-1991 and post-1991 loans divided by average pre-1991 and post-1991 loans.
- (12) Net financial income divided by average interest earning assets. Included in financial income are net gains (losses) on government securities.
- (13) Administrative expenses divided by the sum of (i) net financial income, (ii) contribution from insurance and (iii) other income from services, net. Excludes severance payments and bonuses that totaled Ps.5.5 million, Ps.7.2 million and Ps.6.7 million for the years ended December 31, 2005, 2004, and 2003, respectively.
- (14) Insurance claims paid divided by insurance premiums earned.
- (15) Non-performing loans consist of (i) in the case of consumer loans, those classified under Central Bank regulations as "Deficient Performance," "Difficult Collection," "Uncollectible" and "Uncollectible for Technical Reasons" and (ii) in the case of commercial loans, those classified under Central Bank regulations as "Problematic," "High Risk of Insolvency," "Uncollectible" and "Uncollectible for Technical Reasons." See "Selected Statistical Information—Central Bank's Loan Classification System and Reserves for Loan Losses" in this offering memorandum. We have used a variety of different methodologies for classifying the "non-performance" of our mortgage loans. As a result, information regarding non-performing loans is not necessarily comparable from one period to another. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Comparability of Data," "Selected Statistical Information—Central Bank's Loan Classification System and Reserves for Loan Losses" and "—Classification of Loan Portfolio According to Central Bank Criteria" in this offering memorandum.
- (16) For purposes of Central Bank loan classifications and our establishment of loan loss reserves, total loans include accrued interest and loans in trust pending securitization.
- (17) Except for margins and ratios.
- (18) The US dollar convenience translation as of or for the year ended December 31, 2005, is based on the peso/dollar exchange rate of Ps.3.0315=US\$1.00 prevailing as of December 31, 2005. Such translation should not be construed as a representation that the local currency amounts represent, or have been or could be converted into, US dollars at that or any other rate.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*This discussion should be read in conjunction with our audited financial statements which are included in this offering memorandum. Our audited financial statements are prepared in accordance with Central Bank accounting rules which differ in certain significant respects from Argentine GAAP and from U.S. GAAP. Our audited financial statements do not contain a reconciliation to Argentine GAAP or to U.S. GAAP of our shareholders' equity at December 31, 2005 or 2004 or our net income for the fiscal periods ended on such dates. Our shareholders' equity at December 31, 2005, and December 31, 2004, if reconciled to Argentine GAAP and to U.S. GAAP, would be materially lower than our shareholders' equity as presented under Central Bank accounting rules.*

### **Events in Argentina and Their Adverse Impact on the Bank**

Our business and results of operations are dependent on, and significantly impacted by, the macroeconomic situation prevailing in Argentina. As such, our business and results of operations were materially and adversely affected by the acute Argentine economic crisis that began in 2001 and prevailed throughout most of 2002. Since 2003, the Argentine economy has shown signs of recovery compared to 2001 and 2002 and GDP has grown in each of 2003, 2004 and 2005. In addition, interest rates have fallen and the foreign exchange market has stabilized. The financial system has gradually recovered its liquidity levels, recording a significant increase in deposits and the level of loan originations began to grow, especially in 2005. See "The Crisis and Recovery in Argentina" for a more complete discussion of the economic crisis.

Based on current data, the Argentine economy during 2003, 2004 and 2005, GDP increased by 8.8%, 9.0% and 9.0% according to INDEC estimates. Based on INDEC estimates, in US dollar terms GDP increased from US\$69.8 billion in 2002 to US\$182.1 billion in 2005, and unemployment decreased to 10.1% as of the fourth quarter of 2005. As of December 31, 2005, approximately 40% of the population was below the poverty line according to INDEC. In 2003 and 2004, Argentina posted a fiscal surplus of approximately Ps.1,805.3 million and Ps.11,657.8 million, respectively. As of December 31, 2005, Argentina recorded a fiscal surplus of approximately Ps.19,661.0 million. After the settlement of its exchange offer, Argentina's sovereign debt outstanding amounted to US\$126,466.0 million, representing approximately 69.4% of the GDP estimated for the year ending December 31, 2005.

During 2003 and 2004, inflation increased by 4.3% and 7.9% as measured by the WPI, and 3.7% and 6.1% as measured by the CPI. As of December 31, 2005, inflation increased by 10.7% as measured by the WPI, and by 12.3% as measured by the CPI. The preceding information is based on data published by the Ministry of Economy and the Central Bank.

### **Our Response to the Crisis**

The economic crisis of 2001 and 2002 had devastating effects on the Argentine financial system and particularly on our mortgage business as the pesification of our assets without the corollary reduction in the portfolio of our foreign-currency denominated liabilities resulted in a severe mismatch of our asset and liability positions. In response to the crisis, we undertook various measures designed to shore up our business. These included the following key initiatives:

- (i) recovering financial stability and strengthening liquidity,
- (ii) maximizing the present value of the loan assets in our loan portfolio,
- (iii) improving operating efficiency,
- (iv) reconstituting financial brokerage and service businesses,
- (v) strengthening financial position and
- (vi) minimizing interest rate, maturity and currency mismatch risks.

The success we achieved in implementing our plan has allowed us to:

- Restructure all our financial liabilities, amounting to approximately US\$1,208.4 million, thus aligning principal and interest payments with our cash flow, thus becoming the first financial institution in Argentina to achieve this objective.
- Reduce our debt by US\$361.0 million, extending the average life of our outstanding debt, and reducing average interest rates, thus matching the term of lending and borrowing transactions, achieving proper financial intermediation margins and full hedging of foreign currency-denominated liabilities.
- Achieve high liquidity levels, as reflected in the significant stock of liquid assets, stable cash flow from operations and low uses of funds projected for the medium term.
- Manage to position ourselves as one of the leading private banks in terms of equity in Argentina, with high asset/equity ratios well above those of most other financial institutions and full provisioning of non-performing loans, which eliminates exposure to credit risk from the private sector.
- Reduce our exposure to the public sector risk.
- Attain high profitability rates by controlling operating expenses and generating stable operating results.
- Set a business diversification strategy aimed at developing a universal banking business on the basis of our traditional franchise in the mortgage business.

Since 2001, we overcame significant challenges and reached various milestones in our history as a financial institution. Our major achievements include the following:

- We recorded net income of Ps.254.4 million for the year ended December 31, 2003, Ps.279.1 million in 2004 and Ps.253.3 million in 2005.
- We achieved a significant expansion in lending to the private sector, developing new lines of credit outside of the mortgage sector, such as consumer loans, credit card financing, pledge loans and corporate loans.
- We expanded our retail network and related services.
- We developed new construction financing and mortgage-related products.
- We developed our base of depositors, backed by improved performance in the retail segment.
- We re-established access to the domestic Argentine capital markets, where since June 2004, we led the sale of five series of Cédulas Hipotecarias in aggregate principal amount of approximately Ps.292.1 million, issued under our “Cédulas Hipotecarias Argentinas” Global Program.
- We became the first Argentine financial institution to access the international capital markets after its debt restructuring, issuing a total amount of US\$250.0 million of notes due 2010.
- We were the first bank to obtain foreign financing after the Argentine crisis, accessing borrowings from foreign institutions.
- We substantially reduced our indebtedness levels, retiring all of our medium term guaranteed debt for an amount of US\$268.0 million and reducing our liabilities with the Central Bank adjusted by inflation by more than Ps.1,727.8 million.
- We subscribed BODEN due 2012 for a total value of US\$773.5 million under the compensation scheme granted to financial institutions.
- We had unparalleled profitability and efficiency ratios, and higher liquidity and solvency levels than the average recorded by the Argentine financial system.
- We significantly improved our asset quality.

#### ***Restructuring of all of our financial liabilities***

As a result of the economic crisis, we suspended payment on all of our debt obligations in 2003 and negotiated a comprehensive debt restructuring plan comprising our obligations that at December 31, 2003 totaled

approximately Ps.2,849.2 million and on approximately Ps.889.6 million of loans due to foreign banks and other private and bilateral entities. This process culminated with the participation in the exchange offer of Ps.2,662.2 million, representing approximately 93% of the aggregate principal amount of our bond debt outstanding at that date. Of the principal amounts validly offered, approximately 77% (Ps.2,060.9 million) opted to receive long-term securities (bonds due 2013), approximately 7% (Ps.168.1 million) opted to receive cash, and approximately 16% (Ps.433.3 million) opted to receive medium-term guaranteed notes due 2010. Of an aggregate principal amount of Ps.889.6 million of bank debt outstanding at December 29, 2003, 100% participated in the simultaneous restructuring. Of that amount, approximately 20% (Ps.187.4 million) opted to receive long-term loans, approximately 10% (Ps.98.4 million) opted to receive cash and approximately 70% (Ps.608.0 million) opted to receive medium-term guaranteed loans due 2010. After settlement of the exchange offer, we continued to exchange old notes with holders who did not participate in the offers and at December 31, 2005, we had reduced the aggregate principal amount of all the series of bonds that did not participate in the exchange offer to Ps.130.8 million.

In November 2005, we repurchased the remaining principal of our medium term guaranteed bank debt issued in connection with our restructuring. As a result of that repurchase, we triggered a mandatory redemption of the medium term guaranteed notes that had been issued to bondholders in the restructuring and which we were required to redeem per the terms of the medium term notes. We issued a notice of redemption in respect of these medium term guaranteed notes on December 7, 2005 and redeemed the notes on January 13, 2006. As a result, we have cancelled all of the medium term guaranteed debt (bank and bond debt) previously outstanding, which totaled US\$268 million as of the restructuring date. The Stock Appreciation Rights (StARs) attached to the medium term bonds remain outstanding.

### **Subscription of Additional BODEN**

As of the date of this offering memorandum we had subscribed additional BODEN due 2012 in principal amount of US\$773.5 million, for cash in aggregate principal amount of Ps.1,966.0 million. We have received principal and interest payments in aggregate amount of US\$145.6 million related to these BODEN. After giving effect to the subscription of these BODEN, we are due to receive approximately US\$59.3 million of the US\$845.7 million principal amount of additional BODEN that were approved by the Argentine Government to be allocated to us in connection with the pesification of our assets during the Argentine economic crisis in 2002 and 2003. These transactions have reduced by Ps.1,966.0 million our on-balance sheet Central Bank borrowings for the total subscription of additional BODEN that we had recorded at December 31, 2004.

### **Factors Affecting Comparability of Financial Data**

Our consolidated results of operations for the years ended December 31, 2005, 2004 and 2003, and our financial condition at those dates reflect significant ongoing changes in the nature of our business, the composition of our loan and investment portfolios, changes in our sources of funding and in the regulatory environment. Subsequent to the economic crisis in Argentina we have complemented our traditional mortgage lending with other types of banking services. As a result, our results of operations for the years ended December 31, 2005, 2004 and 2003 are not comparable in many important respects to our results for preceding fiscal periods and are not necessarily indicative of our future results.

As of January 1, 2002, we resumed the application of inflation adjustments pursuant to the Central Bank's Communication "A" 3702, the FACPCE Resolution No. 240/02 and the CNV's Resolution No. 415/02 which established that financial statements for periods ended in 2002 would be restated for inflation from January 1, 2002 by applying the WPI as follows:

- non-monetary items and income statement amounts are adjusted in terms of the then-current general purchasing power;
- monetary items are not adjusted as such items are, by their nature, stated in terms of their current general purchasing power; and
- monetary gains and losses are recognized in the income statement, reflecting the effect of holding monetary assets and liabilities in periods of inflation.

On March 25, 2003, Decree 664/03 rescinded the requirement that financial statements be prepared in constant currency, effective for financial periods on or after March 1, 2003 and on April 8, 2003 the Central Bank issued Communication "A" 3821 discontinuing inflation accounting effective as of March 1, 2003.

## **Principal Accounting Policies**

### ***Government securities – Boden***

Central Bank accounting rules regarding investments in government securities allow banks to classify their portfolio of government securities into two balance sheet categories: trading and investing securities. Trading securities are marked to market daily with the resulting gain or loss reflected in the statements of income. Investing securities are carried as cost plus accretion of discount or amortization of premiums and accrued interest, as applicable.

The compensatory bonds we receive are classified as "Investing securities" at par value based on Central Bank accounting rules, notwithstanding that the estimated market value of such bonds is lower than such par value. As of December 31, 2005, the BODEN were trading in the secondary market at a price of approximately US\$78.4119 for every US\$100 of nominal value. As market conditions change, adjustments to the estimated market value of the BODEN are not reflected in our financial position. Future sales or settlements of the BODEN will reflect the market conditions at the time and may result in a significant gain or loss that represents the difference between the settlement amount and the then carrying value. See note 10 to our audited financial statements.

Our right to receive BODEN that are issued in hedge transactions is classified as "Other receivables from financial transactions" and is being recognized at par value of the BODEN to be issued, notwithstanding that the estimated market value of the BODEN linked to such right is significantly below such carrying value. As of December 31, 2004 and 2005, the BODEN were trading in the secondary market at a price of approximately US\$84.7 and US\$78.4119, respectively, for every US\$100 of nominal value.

As of the date of this offering memorandum we had subscribed additional BODEN due 2012 in principal amount of US\$773.5 million, for cash in aggregate principal amount of Ps.1,966 million.

### ***Reserve for loan losses***

Our reserve for loan losses is maintained in accordance with the regulations established by the Central Bank. Under such regulations, a minimum allowance for loan losses is calculated primarily based upon the past due status of our mortgage loan borrowers. Although we are required to follow the methodology and guidelines for determining our reserve for loan loss as set forth by the Central Bank, we are allowed to provide additional allowances for loan loss reserves. The determination of the allowance for loan losses requires significant use of estimates.

We classify our loans based upon their past due status consistent with the requirements of the Central Bank. Minimum loss percentages required by the Central Bank are also applied to the totals in each loan classification. Balances of loans and reserves are charged-off and reflected on our balance sheets three months from the date on which the loans were fully covered by our loan loss reserves.

### ***Bank premises, foreclosed assets and intangible assets***

Future sales of these assets will reflect market values at the time and may differ from the carrying value at the balance sheet date.

## **The Years Ended December 31, 2005 and 2004**

### **General**

The following table sets forth the principal components of our net income for the years ended December 31, 2005 and 2004

	<u>Years ended December 31,</u>		<u>% Change</u>
	<u>2005</u>	<u>2004</u>	<u>2005/2004</u>
	(in millions of pesos, except for percentages and basis points)		
Financial income.....	Ps. 736.2	Ps. 721.4	2.1
Financial expenditures .....	(455.1)	(289.8)	57.1
Net financial income.....	281.1	431.6	(34.9)
Provision for losses on loans.....	(19.9)	(17.5)	13.7
Net contribution from insurance (1).....	39.7	35.6	11.5
Other income from services .....	39.0	42.0	(7.1)
Other expenditures on services .....	(19.6)	(14.5)	35.3
Administrative expenses .....	(155.3)	(134.0)	15.9
Miscellaneous income (loss), net (2) .....	89.6	(54.1)	NM
Income tax .....	(0.6)	(8.8)	(92.7)
Minority interest .....	(0.6)	(1.1)	(42.9)
Net income .....	Ps. 253.3	Ps. 279.1	(9.2)
Net interest margin (3).....	4.36%	6.40%	(2.04) %
Net interest spread (4).....	2.14%	5.28%	(3.14) %
Average rate of interest on mortgage loan portfolio .....	9.92%	12.62%	(2.70) %

(1) Insurance premiums minus insurance claims paid.

(2) Miscellaneous income minus miscellaneous expenses.

(3) Net financial income divided by average interest-earning assets. Net financial income is financial income minus interest paid on deposits and other liabilities from financial transactions.

(4) Average rate earned on interest-earning assets minus average rate paid on interest-bearing liabilities.

### ***Net Income***

Our net income decreased to Ps.253.3 million for the year ended December 31, 2005 compared to Ps.279.1 million for the year ended December 31, 2004. This decrease was primarily due to:

- higher financial expenditure as a result of the increase in the CER index on CER-adjusted liabilities, partially offset by lower average balances of these liabilities that were reduced by Ps.1,727.8 million from Ps.2,228.2 million at December 31, 2004 to Ps.500.4 million at December 31, 2005; and
- higher expenditures of approximately Ps.21 million on services and administrative expenses as a result of higher expenditures on advertising and publicity and social contributions resulting from increased expenses related to the introduction of new products and our asset growth strategy;.

These factors were partially offset by:

- higher miscellaneous income (loss), net as a result higher recoveries on loans and lower provisions; and
- slightly higher financial income as a result of the impact of the CER index applicable to our BODEN and other government securities.

### ***Financial Income***

The following table sets forth the principal components of our financial income for the years ended December 31, 2005 and 2004.

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2005</b>	<b>2004</b>	<b>2005/2004</b>
	(in millions of pesos, except for percentages and basis points)		
Mortgage loans and other financial transactions.....	Ps. 180.1	Ps. 255.1	(29.4)
Government guaranteed loans.....	131.5	75.9	73.3
Compensatory and other BODEN.....	55.6	40.2	38.3
Income from discounted buyback of debt.....	60.1	142.5	(57.8)
Mortgage-backed securities.....	19.8	50.5	(60.8)
Other loans.....	44.0	27.9	57.8
Government and private securities.....	138.6	66.4	108.8
Hedges.....	65.6	—	NM
Cash and due from banks.....	2.3	14.0	(83.5)
Effects of changes in exchange rates.....	21.4	25.8	(16.9)
Interbank loans.....	1.3	0.7	85.7
Others.....	<u>15.8</u>	<u>22.4</u>	(29.6)
Total.....	<u>Ps. 736.2</u>	<u>Ps. 721.4</u>	2.1

Our financial income increased 2.1% to Ps.736.2 million for the year ended December 31, 2005 as compared to Ps.721.4 million for the year ended December 31, 2004 primarily as a result of:

- higher income from guaranteed loans and other public sector loans due to the increase in the CER index, higher income from compensatory and additional BODEN and government securities resulting from the increase in the LIBOR rate during 2005;
- higher income from derivative operations resulting from hedging transactions including our total return swap; and
- higher interest accrued on other loans, principally newly-originated consumer and personal loans, reflecting the Bank's increased presence in this sector.

These factors were partially offset by:

- the positive effect of the CVS index on pesified mortgage loans recorded during the year ended December 31, 2004 which did not occur in 2005;
- a reduced positive effect of the repurchase of financial indebtedness at market prices;
- lower financial income from mortgage-backed securities as a result of lower income from investments in financial trusts; and
- income resulting from the effects in exchange rates and appreciation of the value of our position in metals.

### ***Financial Expenditures***

The following table sets forth information regarding our financial expenditures for the years ended December 31, 2005 and 2004.

	<u>Years ended December 31,</u>		<u>% Change</u>
	<u>2005</u>	<u>2004</u>	<u>2005/2004</u>
	(in millions of pesos, except for percentages and basis points)		
Bonds and similar obligations.....	Ps. 148.4	Ps. 80.8	83.7
Borrowings from Central Bank.....	245.4	158.4	54.9
Borrowings from banks .....	32.6	31.3	4.1
Time deposits.....	12.7	2.8	NM
Other(1) .....	3.4	1.6	112.5
Contributions and taxes on financial income .....	<u>12.6</u>	<u>14.8</u>	(15.0)
Total .....	<u>Ps. 455.1</u>	<u>Ps. 289.8</u>	57.1

(1) Includes interest and other amounts payable on savings accounts, checking accounts, and other deposits.

Our financial expenditures for 2005 increased 57.1% to Ps.455.1 million on December 31, 2005 from Ps.289.8 million for 2004 primarily as a result of:

- the impact of the CER index accrued on Central Bank borrowings partially offset by lower average balances;
- higher financial expenditures from foreign currency-denominated liabilities due to new external financing and higher interest accrued on restructured debt, as a result of the increase in the LIBOR rate applicable to our medium-term guaranteed debt, and the step-up in the interest rate payable on our long term debt, partially offset by lower average balances of restructured debt due to our purchase of such debt and subsequent cancellation;
- higher interest payments resulting from increased average balances on savings accounts, time deposits and other deposits.

#### ***Provision for Losses on Loans***

The following table sets forth our provision for loan losses for the years ended December 31, 2005 and 2004.

	<u>Years ended December 31,</u>		<u>% Change</u>
	<u>2005</u>	<u>2004</u>	<u>2005/2004</u>
	(in millions of pesos, except for percentages)		
Provision for loan losses.....	Ps. 19.9	Ps. 17.5	13.7
Charge-offs .....	Ps. 148.4	Ps. 102.5	44.8

Our provision for loan losses in 2005 increased to Ps.19.9 million from Ps.17.5 million in 2004. This increased provision reflects the growth of new loans which partially offsets the improvement in the portfolio of performing loans.

#### ***Net Contribution from Insurance***

The following table sets forth the principal components of our net contribution from insurance for the years ended December 31, 2005 and 2004.



	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2005</b>	<b>2004</b>	<b>2005/2004</b>
(in millions of pesos, except for percentages)			
Insurance premiums earned:			
Life .....	Ps. 31.2	Ps.26.8	16.4
Property damage .....	12.7	12.7	0.0
Unemployment .....	1.5	1.7	(11.8)
Other .....	<u>2.5</u>	<u>2.3</u>	8.7
Total premiums earned .....	<u>Ps. 48.0</u>	<u>Ps. 43.4</u>	10.3
Insurance claims paid:			
Life .....	Ps. 7.4	Ps. 7.1	4.2
Property damage .....	0.4	0.3	33.3
Unemployment .....	0.2	0.2	0.0
Other .....	<u>0.3</u>	<u>0.3</u>	0.0
Total claims paid .....	<u>Ps. 8.3</u>	<u>Ps. 7.9</u>	5.1
Net contribution from insurance .....	<u>Ps. 39.7</u>	<u>Ps. 35.6</u>	11.5

Our net contribution from insurance increased 11.5% for 2005 compared to 2004 primarily due to a 10.3% increase in premiums earned as a result of an increase in the number of loans with respect to which we provide insurance coverage, principally the increase in new consumer loans included personal loans, credit cards and mortgage loans.

#### ***Other Income from Services***

The following table includes the principal components of our other income from services for the years ended December 31, 2005 and 2004.

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2005</b>	<b>2004</b>	<b>2005/2004</b>
(in millions of pesos, except for percentages)			
Loan servicing fees from third parties .....	Ps. 1.6	Ps. 2.2	(27.3)
FONAVI commissions .....	3.2	3.0	6.6
Credit cards commissions .....	5.1	0.1	NM
Other commissions .....	4.1	2.5	64.0
Commissions for technological services (MSI) .....	<u>12.0</u>	<u>22.7</u>	(47.1)
Total commissions .....	26.0	30.5	(14.8)
Recovery of loan expenses .....	8.4	9.9	(15.1)
Other .....	<u>4.6</u>	<u>1.6</u>	187.5
Total .....	<u>Ps. 39.0</u>	<u>Ps. 42.0</u>	(7.1)

Our other income from services decreased 7.1% for 2005 compared to 2004 primarily due to lower income from commissions for technological services provided by our subsidiary MSI (Mortgage Systems Inc.), partially offset by higher other commissions, principally on credits cards and savings accounts. In addition, our income from services included commissions from services resulting from new retail products introduced by the Bank.

#### ***Other Expenditures on Services***

The following table includes the principal components of our other expenditures on services for the years ended December 31, 2005 and 2004:

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2005</b>	<b>2004</b>	<b>2005/2004</b>
	(in millions of pesos, except for percentages)		
Structuring and underwriting fees.....	Ps. 5.3	Ps. 5.8	(8.6)
Commissions on third party originations .....	0.2	0.4	(50.0)
Collections.....	0.2	0.6	(66.7)
Credit cards commissions .....	6.0	0.8	NM
Banking services.....	<u>6.7</u>	<u>5.4</u>	24.1
Total .....	<u>18.4</u>	<u>13.0</u>	41.3
Contributions and taxes on income from services.....	<u>1.2</u>	<u>1.5</u>	(0.2)
Total .....	<u>Ps. 19.6</u>	<u>Ps. 14.5</u>	35.3

Our other expenditures on services increased 35.3 % from Ps.14.5 million in 2004 to Ps.19.6 million in 2005, primarily due to higher credit cards commissions and banking services related to new products, partially offset by lower commissions related to loans.

### ***Administrative Expenses***

The following table sets forth the principal components of our administrative expenses for the years ended December 31, 2005 and 2004.

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2005</b>	<b>2004</b>	<b>2005/2004</b>
	(in millions of pesos, except for percentages)		
Salaries and social security contributions.....	Ps. 73.9	Ps. 70.0	5.6
Fees and external administrative services.....	11.2	11.7	(4.3)
Maintenance and repair .....	3.9	4.3	(9.3)
Advertising and publicity .....	10.3	4.8	114.8
Nonrecoverable VAT and other taxes .....	11.4	10.3	10.4
Electricity and communications .....	6.6	5.0	32.0
Depreciation of bank premises and equipment.....	7.5	7.8	(4.0)
Amortization of organizational expenses.....	2.5	1.0	150.0
Corporate personnel benefits .....	7.0	5.7	22.8
Other.....	<u>21.1</u>	<u>13.4</u>	57.2
Total .....	<u>Ps. 155.3</u>	<u>Ps. 134.0</u>	15.9

Administrative expenses for the year ended December 31, 2005 increased 15.9 % by Ps.21.3 million to Ps.155.3 million from Ps.134.0 million for the corresponding period in 2004. The main reasons for this increase were higher salaries and social security contributions required under applicable regulations in Argentina, higher advertising expenses related to the launch of our new products and an increase in “Other” as a result of an increase in fees related to the actions adopted by the Bank in developing its retail banking business, mainly recruiting employees services.

### *Miscellaneous Income*

The following table sets forth our miscellaneous income for the years ended December 31, 2005 and 2004.

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2005</b>	<b>2004</b>	<b>2005/2004</b>
	(in millions of pesos, except for percentages)		
Penalty interest .....	Ps. 7.6	Ps. 9.4	(18.8)
Rental income .....	0.6	0.7	(28.6)
Reversal of provision for contingencies.....	22.9	0.2	NM
Loan loss recoveries .....	83.9	53.0	58.3
Other .....	<u>7.8</u>	<u>6.2</u>	29.0
Total .....	<u>Ps. 122.8</u>	<u>Ps. 69.6</u>	76.5

Our miscellaneous income increased 76.5% to Ps.122.8 million for the year ended December 31, 2005 from Ps. 69.6 million for the year ended December 31, 2004 primarily as a result of:

- higher reversal of provisions resulting from the repurchase of medium term guaranteed debt and subsequent cancellation of the associated stock appreciation rights (StARs); and
- higher loan recoveries during the period resulting from our collection efforts.

### *Miscellaneous Expenses*

The following table sets forth the principal components of our miscellaneous expenses for the years ended December 31, 2005 and 2004:

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2005</b>	<b>2004</b>	<b>2005/2004</b>
	(in millions of pesos, except for percentages)		
Provision for lawsuits contingencies.....	Ps. —	Ps. 7.9	(100.0)
Provision for other contingencies and miscellaneous receivables .....	0.2	7.9	(97.5)
Provision differences in compensatory and hedge bonds.....	—	39.5	(100.0)
Provision for administrative organization .....	—	19.1	(100.0)
Taxes on estimated income(1) .....	8.4	20.9	(59.8)
Provision for employee compensation plan .....	17.4	19.1	(8.9)
Provision for profit sharing plan(2) .....	2.5	2.8	(10.7)
Provision for insurance contingencies .....	0.7	0.7	0.0
Prepayment mortgage loans at discount.....	—	2.6	(100.0)
Other .....	<u>4.0</u>	<u>3.2</u>	(25.0)
Total .....	<u>Ps. 33.2</u>	<u>Ps. 123.7</u>	(73.1)%

(1) Beginning in 2004, Central Bank rules required all Argentine financial institutions to report income tax on estimated income for the years in which accumulated net losses were carried forward from prior years.

(2) Our executive profit sharing plan allocates 1% of our net income for the year for incentive payment to our executive officers and directors, insofar as net income exceeds 11% of our total shareholders' equity.

Our miscellaneous expenses decreased 73.1% to Ps.33.2 million for 2005 from Ps.123.7 million for 2004 primarily as a result of:

- a change in the provision for compensatory and hedge BODEN, which were Ps.39.5 million in 2004;
- a change in the provision for corporate reorganization, which was Ps.19.1 million in 2004, primarily resulting from adjustments to expenses incurred in connection with our employee retirement plan; and

- a change in estimated income tax payable, which decreased from Ps.8.4 million in 2005 to Ps.20.9 million in 2004, as Argentine Central Bank rules require that we make a provision for assumed tax payable on minimum income, which can be treated as tax credits to be accounted for in future years.

### ***Income Tax***

Prior to January 1, 1996, we were exempt from payment of income tax. Beginning January 1, 1996, we were only exempt from payment of income tax on income attributable to our residential mortgage lending activities. Effective October 1997, as a result of conversion to a *sociedad anónima*, we became subject to payment of income tax in Argentina except on income attributable to mortgage loan commitments made prior to that date.

As a general rule, Argentine tax law allows the deduction of expenses related to a business activity if profits from that activity are taxable. If an enterprise engages in both taxable and non-taxable business activities, as we do, the portion of its business expenses related to the taxable business may be determined by direct allocation of expenses to the particular business activities or by the apportionment method. The Argentine tax code gives preference to the direct allocation method of accounting over the apportionment method in determining deductible expenses, providing that the apportionment method may only be used in circumstances where it is not possible to make direct allocation of expenses to taxable income.

Until December 31, 1998, we determined our income tax liability based on the expense apportionment method, treating as deductible the portion of expenses arising from applying to the total expenses incurred the ratio of taxable income to total income. As of December 31, 1999, we have calculated income tax taking account of the direct relationship between expenses and the taxable or non-taxable income to which those expenses relate. The apportionment method has only been used for those expenses that are not directly allocable to the income producing sources.

We have filed income tax returns for each of 1999, 2000, 2001, 2002, 2003 and 2004, which were prepared in compliance with the aforementioned methodologies. As a result, we have recorded tax loss carryforwards for each of 1999, 2000, 2001, 2002, 2003 and 2004 of Ps.35.7 million, Ps.70.9 million, Ps.143.4 million, Ps.3,132.6 million, Ps.(1,295.1) and (781.6) million, respectively.

### **The Years Ended December 31, 2004 and 2003**

#### **General**

The following table sets forth the principal components of our net income for the years ended December 31, 2004 and 2003.

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2004</b>	<b>2003</b>	<b>2004/2003</b>
	(in millions of pesos, except for percentages and basis points)		
Financial income.....	Ps. 721.4	Ps. 1,012.9	(28.8)
Financial expenditures .....	(289.8)	(639.2)	(54.7)
Net financial income.....	431.6	373.6	15.5
Provision for losses on loans.....	(17.5)	(33.4)	(47.5)
Net contribution from insurance (1).....	35.6	39.7	(10.3)
Other income from services .....	42.0	21.4	96.5
Other expenditures on services .....	(14.5)	(20.2)	(28.4)
Administrative expenses .....	(134.0)	(135.0)	(0.7)
Miscellaneous income (loss), net (2) .....	(54.1)	19.1	NM
Monetary Adjustment .....	—	(10.0)	(100.0)
Income tax .....	(8.8)	(1.7)	NM
Minority interest .....	(1.1)	0.9	(215.3)
Net income .....	<u>Ps. 279.1</u>	<u>Ps. 254.4</u>	9.7
Net interest margin (3).....	6.40%	5.90%	50bps
Net interest spread (4).....	5.28%	4.72%	56bps

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2004</b>	<b>2003</b>	<b>2004/2003</b>
	(in millions of pesos, except for percentages and basis points)		
Average rate of interest on mortgage loan portfolio .....	12.62%	12.68%	6bps

- (1) Insurance premiums minus insurance claims paid.
- (2) Miscellaneous income minus miscellaneous expenses.
- (3) Net financial income divided by average interest-earning assets. Net financial income is financial income minus interest paid on deposits and other liabilities from financial transactions.
- (4) Average rate earned on interest-earning assets minus interest paid on interest-bearing liabilities.

### ***Net Income***

Our net income increased to of Ps.279.1 million for the year ended December 31, 2004 compared to Ps.254.4 million for the year ended December 31, 2003. This increase was primarily due to:

- a Ps.142.5 million positive effect of the prepayment of restructured financial indebtedness at market prices;
- lower provision for loan losses, as a result of an improvement in the quality portfolio of our loans;
- lower expenditures on services related to the impact in expenses and commissions due to our debt restructuring in 2003;
- lower negative monetary results due to the suspension of adjustments by inflation from March 1, 2003; and
- the positive impact derived from the appreciation of the peso on our net foreign currency position.

These factors were partially offset by:

- the positive effect of the debt restructuring recorded in the fourth quarter of 2003, which impacted on net financial income and miscellaneous income;
- lower financial income due to the suspension of the CVS index on pesified mortgage loans; and
- lower contribution from insurance due to lower loan balances.

### ***Financial Income***

The following table sets forth the principal components of our financial income for the years ended December 31, 2004 and 2003.

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2004</b>	<b>2003</b>	<b>2004/2003</b>
(in millions of pesos, except for percentages and basis points)			
Mortgage loans and other financial transactions .....	Ps. 255.1	Ps. 307.2	(17.0)
Government guaranteed loans.....	75.9	66.3	14.3
Compensatory and other BODEN.....	40.2	36.1	11.4
Income from discounted buyback of debt.....	142.5	—	NM
Debt restructuring .....	—	486.4	(100.0)
Mortgage-backed securities .....	50.5	34.6	46.1
Other loans.....	27.9	28.5	(2.3)
Government and Private Securities	66.4	—	NM
Cash and due from banks.....	14.0	18.6	(24.5)
Effects of changes in exchange rates .....	25.8	—	NM
Interbank Loans	0.7	—	NM
Others	22.4	35.1	(36.2)
Total .....	<u>Ps. 721.4</u>	<u>Ps. 1,012.9</u>	(28.8)

Our financial income decreased 28.8% to Ps.721.4 million for the year ended December 31, 2004 as compared to Ps.1,012.9 million for the year ended December 31, 2003 primarily as a result of:

- the positive effect of the debt restructuring recorded in the fourth quarter of 2003, as a result of a cut off in the principal amount of bonds and debt with financial institutions; and
- significantly lower interest income on loans as a result of lower average loan balances (due to prepayments, our suspension since 2002 of originations of mortgage loans and scheduled amortization of loans) and the suspension of the CVS index on pesified mortgage loans, effective as of May 31, 2004.

These factors were partially offset by:

- a Ps.142.5 million positive effect of the prepayment of financial debt at market values;
- higher income resulting from the appreciation of government and corporate securities;
- higher income from compensatory and hedge BODEN resulting from the increase in the LIBO rate during the year; and
- the positive effect of differences in the value of our foreign currency position resulting from appreciation of the US dollar against the peso.

*Mortgage loans and other transactions.* Income from mortgage loans decreased 17%, to Ps.255.1 million for 2004 from Ps.307.2 million in 2003, principally due to prepayments, scheduled amortization of the loan portfolio, suspension of origination of new loans and the two securitization programs in 2004.

*Income from discounted buyback of debt.* After January 14, 2004, we proceeded to the early redemption of outstanding bonds and settlement of bank debt in an aggregate principal amount of US\$103.4 million, Ps.208.7 million and Euros 4.5 million, respectively. These transactions resulted in contribution to income of Ps.142.5 million.

### ***Financial Expenditures***

The following table sets forth information regarding our financial expenditures for the years ended December 31, 2004 and 2003.

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2004</b>	<b>2003</b>	<b>2004/2003</b>
	(in millions of pesos, except for percentages and basis points)		
Bonds and similar obligations.....	Ps. 80.8	Ps. 104.7	(22.8)
Borrowings from Central Bank.....	158.4	118.9	33.2
Borrowings from banks .....	31.3	46.4	(32.5)
Effects of changes in exchange rates .....	—	273.5	(100.0)
Temporary investment .....	—	88.8	(100.0)
Time deposits.....	2.8	2.5	12.2
Other(1) .....	1.6	0.5	239.1
Contributions and taxes on financial income .....	14.8	4.0	270.3
Total .....	<u>Ps. 289.8</u>	<u>Ps. 639.2</u>	(54.7)

(1) Includes interest and other amounts payable on savings accounts, checking accounts, and other deposits.

Our financial expenditures for 2004 decreased 54.7% to Ps.289.8 million on December 31, 2004 from Ps.639.2 million for 2003 primarily as a result of:

- lower average balances on restructuring debt due to prepayments made in 2004;
- no negative effect derived from the appreciation of the dollar on our net foreign currency position; and
- lower income during 2004 from government and corporate securities as a result of the sale at market prices of US dollar BODEN due 2012 in 2003.

These factors were partially offset by:

- higher accrual of CER index on Central Bank borrowings which was partially offset by a lower average balances; and
- higher contributions and taxes during the year.

#### ***Net Financial Income***

Our net financial income in 2004 increased 15.5% compared to 2003 from Ps.373.6 million in 2003 to Ps.431.6 million in 2004. This increase was primarily the result of:

- a Ps.349.5 million decrease in financial expenditures principally due to:
- a Ps.23.9 million decrease in interest due on bonds and similar obligation as a result of lower average balances of restructured debt to prepayments made during the period;
- a Ps.15.1 million decrease in interest on borrowings from banks as a result of lower average balances of restructured debt to prepayments made during the period;
- the depreciation of the peso on the Bank's net foreign currency position; and
- partially offset by an increase in interest and adjustments by CER with respect to borrowings from the Central Bank (including Central Bank advances expected to be incurred in the future to acquire additional BODEN); and
- a Ps.291.5 million decrease in financial income reflecting the positive effect of the debt restructuring recorded in the fourth quarter of 2003.

The foregoing was partially offset by the positive effect of the prepayment of restructured financial indebtedness at market prices and higher income resulting from the appreciation of government and corporate securities.

### ***Provision for Losses on Loans***

The following table sets forth our provision for loan losses for the years ended December 31, 2004 and 2003.

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2004</b>	<b>2003</b>	<b>2004/2003</b>
	(in millions of pesos, except for percentages)		
Provision for loan losses .....	Ps. 17.5	Ps. 33.4	(47.5)
Charge-offs .....	Ps. 102.5	Ps. 222.4	(53.9)

Our provision for loan losses in 2004 decreased to Ps.17.5 million from Ps.33.4 million in 2003. This decreased provision reflects an improvement in the portfolio of performing loans and no extraordinary effects during the period.

### ***Net Contribution from Insurance***

The following table sets forth the principal components of our net contribution from insurance for the years ended December 31, 2004 and 2003.

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2004</b>	<b>2003</b>	<b>2004/2003</b>
	(in millions of pesos, except for percentages)		
Insurance premiums earned:			
Life .....	Ps. 26.8	Ps. 29.1	(8.1)
Property damage .....	12.7	15.5	(18.1)
Unemployment .....	1.7	1.9	(13.1)
Other .....	2.3	1.8	32.4
Total premiums earned .....	<u>Ps. 43.4</u>	<u>Ps. 48.3</u>	(10.0)
Insurance claims paid:			
Life .....	Ps. 7.1	Ps. 7.7	(7.9)
Property damage .....	0.3	0.4	(30.6)
Unemployment .....	0.2	0.3	(22.6)
Other .....	0.3	0.2	26.6
Total claims paid .....	<u>Ps. 7.9</u>	<u>Ps. 8.6</u>	(8.6)
Net contribution from insurance .....	<u>Ps. 35.6</u>	<u>Ps. 39.7</u>	(10.3)

Our net contribution from insurance decreased 10.3% for 2004 compared to 2003 primarily due to a 10.0% decrease in premiums earned as a result of (i) a decrease in the number of loans with respect to which we provide insurance coverage because of our suspension of all originations of new mortgage loans since 2002, and (ii) natural amortization of loans and prepayments.

### ***Other Income from Services***

The following table includes the principal components of our other income from services for the years ended December 31, 2004 and 2003.



	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2004</b>	<b>2003</b>	<b>2004/2003</b>
	(in millions of pesos, except for percentages)		
Loan servicing fees from third parties .....	Ps. 2.2	Ps. 3.1	(27.9)
FONAVI commissions .....	3.0	3.0	0.9
Other Commissions .....	2.6	1.3	93.9
Commissions for technological services (MSI) .....	<u>22.7</u>	<u>—</u>	NM
Total commissions.....	30.5	7.4	NM
Recovery of loan expenses	9.9	13.0	(24.5)
Other.....	<u>1.6</u>	<u>1.0</u>	75.1
Total .....	<u>Ps. 42.0</u>	<u>Ps. 21.4</u>	96.5

Our other income from services increased 96.5% for 2004 compared to 2003 primarily due to income from commissions for technological services on our subsidiary MSI (Mortgage Systems Inc.) partially offset by lower recoveries of loan expenses as a result of lower average balances on mortgages loans.

#### ***Other Expenditures on Services***

The following table includes the principal components of our other expenditures on services for the years ended December 31, 2004 and 2003:

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2004</b>	<b>2003</b>	<b>2004/2003</b>
	(in millions of pesos, except for percentages)		
Structuring and underwriting fees.....	Ps. 5.8	Ps. 14.5	(60.3)
Commissions on third party originations .....	0.4	0.3	12.1
Collections .....	0.6	0.7	(15.1)
Banking services.....	<u>6.2</u>	<u>4.1</u>	50.0
Total .....	<u>13.0</u>	<u>19.7</u>	(34.2)
Contributions and taxes on income from services.....	<u>1.5</u>	<u>0.5</u>	204.6
Total .....	<u>Ps. 14.5</u>	<u>Ps. 20.2</u>	(28.4)

Our other expenditures on services decreased 28.4% from Ps.20.2 million in 2003 to Ps.14.5 million in 2004, primarily due to lower fees related to our debt restructuring recorded in 2003, partially offset by higher fees and commissions related to new products launched in 2004 and new Banking Services.

#### ***Administrative Expenses***

The following table sets forth the principal components of our administrative expenses for the years ended December 31, 2004 and 2003.

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2004</b>	<b>2003</b>	<b>2004/2003</b>
	(in millions of pesos, except for percentages)		
Salaries and social security contributions .....	Ps. 70.0	Ps. 64.2	9.1
Fees and external administrative services.....	11.7	16.3	(28.5)
Maintenance and repair .....	4.3	3.3	29.2
Advertising and publicity .....	4.8	1.5	227.0
Nonrecoverable VAT and other taxes .....	10.3	8.3	24.8
Electricity and communications .....	5.0	4.8	4.1
Depreciation of bank premises and equipment.....	7.8	11.9	(34.6)
Amortization of organizational expenses.....	1.0	7.4	(86.4)
Corporate personnel benefits .....	5.7	5.1	11.9
Other.....	13.4	12.2	10.0
Total .....	<u>Ps. 134.0</u>	<u>Ps. 135.0</u>	(0.7)

Our administrative expenses decreased 0.7% to Ps.134.0 million in 2004 from Ps.135.0 million in 2003 primarily as a result of:

- a decrease in amortization of organization expenses as a result of the amortization of certain intangible assets, and
- lower fees and external service charge as a result of certain expenses related to our debt restructuring.

These factors were partially offset by:

- a Ps.5.8 million increase in salaries and social security contributions resulting from an increase in mandatory salary increases required under applicable legislation;
- higher advertising expenses related to the launch of the new product; and
- a Ps.2.0 million increase in non-recoverable VAT and other taxes due to higher operating expenses and advertising expenses in 2004.

These factors were partially offset by lower fees and external service charge as a result of certain expenses related to our debt restructuring.

### ***Miscellaneous Income***

The following table sets forth our miscellaneous income for the years ended December 31, 2004 and 2003.

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2004</b>	<b>2003</b>	<b>2004/2003</b>
	(in millions of pesos, except for percentages)		
Penalty interest .....	Ps. 9.4	Ps. 15.0	(37.2)
Rental income .....	0.7	0.7	0.2
Reversal of provision for contingencies.....	0.2	0.8	(69.4)
Loan loss recoveries .....	53.0	52.3	1.3
Income for restructuring debt.....	—	88.0	(100.0)
Asymmetric indexation.....	—	81.6	(100.0)
Other.....	6.2	8.5	(26.9)
Total .....	<u>Ps. 69.6</u>	<u>Ps. 247.0</u>	(71.8)

Our miscellaneous income decreased 71.8% to Ps.69.6 million for the year ended December 31, 2004 from Ps.247.0 million for the year ended December 31, 2003 primarily as a result of:

- the positive effect of the reduction in interest rates corresponding to the period between August 16 and December 31, 2002 on bonds and interbank loans which were restructured, recorded in 2003;

- the recording of compensation granted by the Argentine government in 2003, due to mismatch between assets and liabilities which were pesified and adjusted by the CER index; and
- lower penalty interest as a result of the improvement in our mortgage loan portfolio.

### **Miscellaneous Expenses**

The following table sets forth the principal components of our miscellaneous expenses for the years ended December 31, 2004 and 2003:

	<b>Years ended December 31,</b>		<b>% Change</b>
	<b>2004</b>	<b>2003</b>	<b>2004/2003</b>
	(in millions of pesos, except for percentages)		
Provision for lawsuits contingencies.....	Ps. 7.9	Ps. 43.9	(82.0)
Provision for other contingencies and miscellaneous receivables.....	7.9	2.8	178.8
Provision for administrative organization.....	19.1	4.4	—
Provision differences in compensatory and hedge bonds.....	39.5	50.5	(21.8)
Provision for SAR.....	19.1	—	—
Provision for taxes.....	9.3	7.5	24
Provision for StAR on Securities Facilities.....	—	59.3	—
Provision for expenses on restructuring debt.....	—	36.5	—
Provision for insurance contingencies.....	0.7	—	—
Gross revenue tax.....	0.9	0.2	390.0
Prepayment mortgage loans at discount.....	2.6	16.3	(83.8)
Other.....	16.6	6.4	161.0
Total.....	<u>Ps. 123.7</u>	<u>Ps. 227.8</u>	(45.7)

Our miscellaneous expenses decreased 45.7% to Ps.123.7 million for 2004 from Ps.227.8 million for 2003 primarily as a result of:

- the effect on certain expenses related to our debt restructuring recorded in the fourth quarter of 2003;
- lower provisions for legal contingences as a result of the improvement in the economy and certain claims related to certain construction projects of private developers; and
- lower prepayments of mortgage loans at discount as a result of the end of a special campaign initiated in 2003.

These factors were partially offset by:

- a provision for Stock Appreciation Rights (StARs) issued in our debt restructuring; and
- higher provisions for administrative organization expenses as a result of adjustments in our retirement plan implemented in prior years.

### **Income Tax**

Prior to January 1, 1996, we were exempt from payment of income tax. Beginning January 1, 1996, we were only exempt from payment of income tax on income attributable to our residential mortgage lending activities. Effective October 1997, as a result of conversion to a *sociedad anónima*, we became subject to payment of income tax in Argentina except on income attributable to mortgage loan commitments made prior to that date.

As a general rule, Argentine tax law allows the deduction of expenses related to a business activity if profits from that activity are taxable. If an enterprise engages in both taxable and non-taxable business activities, as we do, the portion of its business expenses related to the taxable business may be determined by direct allocation of expenses to particular business activities or by the apportionment method. The Argentine tax code gives preference to the direct allocation method of accounting over the apportionment method in determining deductible expenses, providing that the apportionment method may only be used in circumstances where it is not possible to make direct allocation of expenses to taxable income.

Until December 31, 1998, we determined our income tax liability based on the expense apportionment method, treating as deductible the portion of expenses arising from applying to the total expenses incurred the ratio of taxable income to total income. As of December 31, 1999, we have calculated income tax taking account of the direct relationship between expenses and the taxable or non-taxable income to which those expenses relate. The apportionment method has only been used for those expenses that are not directly allocable to the income producing sources.

We have filed income tax returns for each of 1999, 2000, 2001, 2002 and 2003, which were prepared in compliance with the aforementioned methodologies. As a result, we have recorded tax loss carryforwards for each of 1999, 2000, 2001, 2002 and 2003 of Ps.35.7 million, Ps.70.9 million, Ps.143.4 million, Ps.3,132.6 million and Ps.(1,295.1) million, respectively.

### **Interest Rate Sensitivity**

A key element of our asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity measures the change in net financial income as assets and liabilities re-price following a change in market interest rates. An asset and liability structure is matched when an equal amount of assets and liabilities re-price as a result of a change in interest rates. Any difference between re-pricing assets and liabilities results in a gap or mismatch and a change in net financial income when interest rates change.

The following table shows our interest-earning assets and interest-bearing liabilities positions by re-pricing period as of December 31, 2005. The table shows the impact that an increase in short-term interest rates (less than twelve months) results in a reduction in our net interest income as a higher amount of liabilities than assets reprices, while a decrease in short-term interest rates has the opposite effect.

As of December 31, 2005											
	Immediately	1 Through 6 months	6 Through 12 months	1 Through 3 years	3 Through 5 years	5 to 10 years	10 to 15 years	Over 15 years	Non-rate Sensitive	Total	
(in millions of pesos, except for percentages)											
<b>INTEREST EARNING ASSETS</b>											
Cash and due from banks .....	72.0	—	—	—	—	—	—	—	40.6	112.6	
Government and private securities .....	26.5	3.3	233.3	514.4	554.5	641.0	213.2	1.9	31.5	2,219.6	
Pre-1991 loans-individual mortgage .....	—	26.8	26.9	107.6	103.2	213.5	108.4	123.8	2.9	713.1	
Post-1991 loans-individual mortgages.....	—	31.4	31.6	127.6	120.4	235.7	157.1	10.7	20.7	735.2	
Other loans .....	—	355.0	56.6	147.9	126.4	90.3	112.4	—	5.6	894.3	
Other receivables from financial transactions .....	0.6	19.9	—	—	—	916.4	62.8	124.0	—	1,123.7	
Other receivables .....	—	—	76.7	155.5	160.4	230.0	—	—	—	622.6	
Total interest earning assets..	<u>99.1</u>	<u>436.4</u>	<u>425.1</u>	<u>1,053.0</u>	<u>1,064.9</u>	<u>2,236.9</u>	<u>653.9</u>	<u>260.5</u>	<u>101.3</u>	<u>6,421.1</u>	
Cumulative interest earning assets .....	<u>99.1</u>	<u>535.5</u>	<u>960.6</u>	<u>2,013.6</u>	<u>3,078.5</u>	<u>5,405.4</u>	<u>6,059.3</u>	<u>6,319.8</u>	<u>6,421.1</u>		
<b>INTEREST-BEARING LIABILITIES</b>											
Bonds.....	182.9	10.5	27.9	443.0	1,286.6	796.8	—	—	—	2,747.7	
Other banks and international entities .....	—	65.7	237.5	—	—	—	—	—	—	303.2	
Central Bank .....	—	—	71.4	143.0	143.0	143.0	—	—	—	500.4	
Deposits .....	394.5	123.6	21.7	—	—	0.1	—	—	—	539.9	
Total interest bearing liabilities .....	<u>577.4</u>	<u>199.8</u>	<u>358.5</u>	<u>586.0</u>	<u>1,429.6</u>	<u>939.9</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,091.2</u>	
Asset/liability gap.....	(478.3)	236.6	66.6	467.0	(364.7)	1,387.0	653.9	260.5	101.3	2,329.9	
Cumulative gap.....	(478.3)	(241.7)	(175.1)	291.9	(72.8)	1,314.2	1,968.1	2,228.6	2,329.9	—	
Ratio of cumulative gap to cumulative total interest earning assets.....	(483)%	(45)%	(18)%	14%	(2)%	24%	32%	35%	36%	—	

### Exchange Rate Sensitivity

Our exposure to foreign currency fluctuations arises from our foreign currency-denominated assets and liabilities. At December 31, 2005, December 31, 2004 and December 31, 2003, our total foreign currency-denominated liabilities were Ps.4,436.9 million, Ps.4,281.9 million and Ps.3,444.4 million, respectively, all of which were US dollar-and Euro-denominated obligations. At December 30, 2005, December 31, 2004 and at December 31, 2003, our US dollar-denominated assets (including BODEN) were Ps.3,635.7 million, Ps.4,197.4 million and Ps.4,063.1 million, respectively, and our Euro-denominated assets were Ps.984.4 million, Ps.1,125.4 million and Ps.308,1 million, respectively, while our US dollar-denominated liabilities were Ps.3,427.7 million, Ps.3,096.5 million and Ps.2,323.3 million, respectively, and our Euro-denominated liabilities were Ps.1,009.2 million, Ps.1,185.5 million and Ps.1,113.6 million, respectively.

### Liquidity

Our general policy has been to maintain liquidity adequate to meet our operational needs and financial obligations. At December 31, 2005, our liquid assets consisted of:

- Ps.294.8 million of cash and due from banks;
- Ps.220.6 million of Argentine government and corporate securities classified as held for trading, and
- Ps.50.2 million of Argentine Central Bank Bills.

At December 31, 2004, our liquid assets consisted of:

- Ps.341.8 million of cash and due from banks;
- Ps.167.4 million of Argentine government and corporate securities classified as held for trading; and
- Ps.154.3 million of Argentine Central Bank Bills.

*Cash Flows from Operating Activities.* The changes in cash flows from operating activities were principally due to the change in:

- (I) Provision for losses on loans and for contingencies and miscellaneous receivables, net of reversals,
- (II) Net (gain) loss on government securities,
- (III) Net indexing of loans, deposits and other debt, and
- (IV) Net change in other assets and liabilities.

*Cash Flows from Investing Activities.* The changes in cash flow from investing activities were due to subscription of Argentine Government Hedge BODENS.

*Cash Flows from Financing Activities.* The changes in cash flows from financing activities were principally due to the issuance of notes Series IV partially offset by payments on Central Bank debt, Bonds, Notes and Long Term debts, as a result of the changes in our restructuring financial debt in 2004 and 2003.

### Other

*Swaps.* During 2004 and 2005, we entered into two swap agreements with Credit Suisse First Boston and two swap agreements with Deutsche Bank AG to cover CER/US dollar and Euro/US dollar. The aggregate outstanding amounts under these agreements at December 31, 2005 were US\$180 million and Euros 250 million. In 2004, we also entered into a total return swap agreement with Deutsche Bank AG for US\$25 million.

*Repurchases.* During 2005 and 2006, we entered into four repurchase agreements with DEPFA Investment Bank Limited under a Master Forward Sale Agreement, three repurchase agreements with Deutsche Bank AG and two repurchase agreements with Credit Suisse First Boston. The aggregate outstanding amounts under these agreements at December 31, 2005 was US\$147.4 million.

### Funding

Historically, we financed our lending operations mainly through:

- the issuance of fixed and floating rate securities in the international capital markets,
- other financing arrangements with international and domestic financial institutions,
- securitizations of mortgage loans,
- cash flow from existing loans,
- deposits, and
- Central Bank long term loans.

At December 31, 2005 and 2004, we had four principal on-balance-sheet funding sources: bonds, Central Bank advances, other liabilities from financial institutions and deposits. The table below sets forth our liabilities outstanding with respect to each of our sources of funding as of the dates indicated.

	At December 31,		% Change
	2005	2004	2005/2004
	(in millions of pesos except for percentages)		
Bonds(1)(2) .....	Ps. 2,679.6	Ps. 2,717.3	(1.4)
Borrowings from Central Bank .....	500.4	2,228.2	(77.5)
Borrowings from banks and international entities(1) .....	303.2	509.7	(40.5)
Deposits(1) .....	524.7	229.3	128.8
<u>Total .....</u>	<u>Ps. 4,007.9</u>	<u>Ps. 5,684.5</u>	(29.5)

(1) Excludes accrued interest.

(2) Guaranteed bonds of US\$107,941,000 were fully redeemed in January 2006.

On May 3, 2005 we prepaid outstanding balances due to the Central Bank of approximately Ps.233.5 million in respect of advances and in year ended December 31, 2005, we subscribed approximately Ps.652.3 million in additional BODEN, in accordance with Decree 905/2002, and prepaid outstanding balances to the Central Bank related to debt recorded in connection with the subscription of such BODEN.

The restructuring, ended January 14, 2004, resulted in a reduction of the Bank's debt by approximately US\$361.3 million, the extension of terms to an average life of approximately 6.5 years and a 5% reduction in average interest rates. Consummation of the debt restructuring has enabled the Bank to regain financial stability and bolstered its financial condition, allowing it to reach remarkable liquidity and solvency ratios unparalleled in the Argentine financial system.

### **Bonds**

At December 31, 2005, the principal amount of Bonds was Ps.2,747.8 million. This amount includes Argentine Mortgage Bonds (CHA) issued under our Global "Euro Medium Term Notes" ("EMTN") Program, ordinary Bonds not convertible into shares under the Global Medium Term Notes (GMTN") Program, new debt issued in connection with our restructuring and new Notes due 2010 under Global Medium-Term note Program.

The principal amount values of the different series of notes we have issued and outstanding is as follows:

	<b>Outstanding principal amount at December 31, 2005 (millions of pesos)</b>	<b>Date of issue</b>	<b>Maturity Date</b>	<b>Annual Interest rate (%)</b>
Bonds issued prior to restructuring(1).....	Ps. 130.8			
<b>GMTN (US\$1,200,000,000)</b>				
<b>Notes Issued in Restructuring:</b>				
Guaranteed bonds (US\$107,941,000)(2) .....	111.6	Sep. 15, 2003	Aug. 3, 2010	Libor + 2.5
Long term bonds (US\$449,880,000).....	1041.6	Sep. 15, 2003	Dec. 1, 2013	3.0 – 6.0
Long term bonds (Euro 278,367,000).....	<u>950.5</u>	Sep. 15, 2003	Dec. 1, 2013	3.0 – 6.0
Series 4 9.75% Notes due 2010 (US\$150,000,000)(3).....	445.1	Nov. 16, 2005	Nov. 16, 2010	9.75
Accrued interest.....	<u>68.1</u>			
Total.....	<u>Ps.2,747.8</u>			

(1) We have 10 series of bonds issued prior to the restructuring that have outstanding amounts that were not tendered in the restructuring process consummated in January 2004.

(2) This series of bonds was fully redeemed in January 2006.

(3) We issued an additional principal amount of US\$100 million when we reopened this series of bonds in February 2006.

During the year ended December 31, 2005, we redeemed a portion of our outstanding notes issued in the restructuring, as follows:

- Medium-term guaranteed bonds (US\$) for a face value of US\$11.2 million.
- Long-term bonds (US\$) for a face value of US\$76.7 million.

- Long-term bonds (Euro) for a face value of Euro 5.7 million.

The results of these operations have been recorded under financial income in our income statements.

In addition, in January 2006, we repurchased the remaining stock of our medium term guaranteed bonds for a face value of US\$36.8 million issued in connection with our restructuring in January 2004.

### ***Borrowings from Banks and International Entities***

During 2004 and 2005, we incurred the following indebtedness:

- On September 2, 2004, we obtained a loan from Credit Suisse First Boston International in an aggregate principal amount of US\$65.0 million, due August 25, 2005. The loan was fully paid with proceeds from other financings.
- On September 28, 2004, we obtained a loan from Deutsche Bank AG, London Branch in an aggregate principal amount of US\$20.0 million, due March 31, 2006.
- On January 25, 2005, we obtained a loan from Deutsche Bank AG, London Branch in an aggregate principal amount of US\$30.0 million, due July 28, 2006.
- On August 23, 2005, we obtained a loan from Deutsche Bank AG, London Branch in an aggregate principal amount of US\$50.0 million, due August 28, 2006.

### ***Borrowings from the Central Bank***

On November 11 and December 1, 2004, we pre-paid the financial assistance loans granted by the Central Bank in amounts totaling Ps.10.0 million and Ps.30.0 million, respectively, in order to settle in advance restructured foreign debt. On January 20, 2005 and February 25, 2005, we took part in the tender offer established by the Central Bank in accordance with the guidelines of Communications “A” 4268 and 4282, the amount of Ps.63.8 million and Ps.16.9 million, respectively, having been accepted in settlement of the previously refinanced debt. On May 3, 2005 we fully prepaid all outstanding balances due on this indebtedness of approximately Ps.233.5 million. As of December 31, 2005, we recorded in our financial statements borrowings from the Central Bank totaling Ps.500.4 million in respect of advances we expect to incur in the future for our right to subscribe additional BODEN.

### ***Loan Securitization Program***

We have various series of bonds under our securitization program that existed and that were issued prior to our restructuring. These bonds remain outstanding under our off-balance sheet securitization program. For each mortgage trust, we transferred a portfolio of our loans to a trustee, which then issued senior bonds, subordinated bonds and certificates of participation. The payment obligations of these instruments are secured by the trust assets consisting of the portfolio of individual residential mortgage loans and any reserve fund established by us for such purpose. The holders of the securities have no recourse against us if the trustee defaults in its payment obligations. Notwithstanding this fact, certain holders of bonds issued by the mortgage trusts have sued us for the effects of the devaluation of the peso and its impact on the value of the trust assets. See “Business—Litigation”.

On June 25, 2004, we led the sale of the first series of “Cédulas Hipotecarias Argentinas” in the local capital market. The aggregate amount of the offering was Ps.50 million, consisting of Ps.40 million of Senior Bonds and Ps.10 million of Subordinated and Certificates of Participation issued under the Ps.500 million Program. On November 17, 2004, we closed a second series of Cédulas Hipotecarias in the local capital market for an aggregate amount of Ps.50 million, issued under the Ps.500 million Program. The bonds accrue variable interest at the higher of CER + 3% and the interest rate for time deposits between Ps.100.000 and Ps.500.000, up to 59 days, reported by Central Bank + 4% subject to a floor of 8% per annum and a ceiling of 15% per annum. On April 7, 2005, we closed a third series of Cédulas Hipotecarias for an aggregate amount of Ps.62.5 million. On June 16, 2005, we closed a fourth series of Cédulas Hipotecarias market for an aggregate amount of Ps.64.6 million. On October 20, 2005, we closed a fifth series of Cédulas Hipotecarias for an aggregate amount of Ps.65.0 million. These last three series of bonds accrue variable interest at the higher of CER + 1% and the interest rate for time deposits between Ps100.000



and Ps.500.000, up to 59 days, reported by Central Bank + 2% subject to a floor of 9% per annum and a ceiling of 16% per annum. On March 27, 2006, we began offering the series VI of Cédulas Hipotecarias of up to approximately Ps. 69.1 million in aggregate principal amount. This new series of bonds accrues variable interest at the higher of CER + 1% and the interest rate for time deposits between Ps.100,000 and Ps.500,000, up to 59 days, reported by Central Bank + 2% subject to a floor of 9% per annum and a ceiling of 19% per annum. All series are collateralized by residential mortgage loans and were rated “ra AAA” on a local scale by Standard and Poor’s.

### ***Deposits***

Pursuant to a Central Bank requirement, historically we could not accept deposits other than savings accounts that were assumed in November 1994 from *Caja Nacional de Ahorro y Seguros* (the Argentine postal savings system), deposits related to our lending transactions and institutional deposits in excess of Ps.1.0 million.

Our bylaws contained an identical restriction on our ability to accept deposits. Although we did not historically rely upon deposits as a principal source of funding, we engaged in limited deposit taking activities. Our other deposits consist of checking accounts maintained by different provincial housing funds and agencies representing Argentine government contributions from the collection of federal taxes which have been set aside for use by the provinces for special purposes and transferred to these accounts.

In December 2001 we received authorization from the Central Bank to accept time deposits for individuals as well as institutions and amended our bylaws accordingly, with approval of a majority of our shareholders as required by Argentine Corporate Law. At December 31, 2005 and 2004 our total deposits consisted of the following:

	<b>At December 31,</b>		<b>% Change</b>
	<b>2005</b>	<b>2004</b>	<b>2005/2004</b>
	(in millions of pesos)		
Checking accounts .....	Ps. 21.1	Ps. 20.9	9.6
Saving accounts .....	126.1	73.9	70.6
Time deposits .....	358.2	118.0	203.6
Other deposits accounts .....	19.2	16.6	14.3
Accrued interest payable.....	3.1	<u>1.0</u>	<u>210.0</u>
Total.....	<u>Ps. 527.7</u>	<u>Ps. 230.4</u>	<u>129.1</u>

Our current strategy is to increase deposits significantly over time in order to achieve significant liquidity to maintain and further develop our financing activities.

## BUSINESS

We have historically been the leading mortgage lender in Argentina with Ps.1,649.1 million and Ps.1,888.6 million of mortgage loans at December 31, 2005 and 2004, respectively. We are also Argentina's largest mortgage servicer, servicing approximately 236,000 loans at December 31, 2005, and Argentina's largest provider of mortgage-related insurance.

We have historically engaged in three principal business activities:

- lending to individuals and developers for the purchase, construction and improvement of housing units;
- underwriting credit life, property damage and unemployment insurance related to our mortgage lending activities; and
- servicing our own and third-party mortgage loan portfolios.

We have a nationwide network of 25 branches and three sales offices, and in the past we have also, to a lesser extent, distributed our products through a network of approximately 24 commercial banks which generally have not developed their own mortgage operations.

### History

#### *Recent History and Current Ownership Structure*

We were established in 1886 and solely owned by the Argentine government. In 1996 the Argentine government announced its intention to privatize the Bank and, pursuant to the Privatization law, converted Banco Hipotecario Nacional into a corporation (*sociedad anónima*) called Banco Hipotecario S.A. In 1999 the Argentine government sold approximately 46% of its shares in the Bank to private interest. See "Principal Shareholders" and "Description of Capital Stock".

All of our operations and customers are located in Argentina, where we operate a nationwide network of 25 branches and three sales offices. Our financial condition and results of operations were significantly and adversely affected during the Argentine economic crisis that began in 2001 and in order to address the liquidity crisis and maintain our viability during the economic crisis, we implemented a rigorous and comprehensive action plan, whose main achievements included the following:

- Successfully restructured in early 2004 substantially all of our liabilities of approximately US\$1,208.4 million, aligning principal and interest payments with our cash flow without having to rely on the stock or flow of deposits. We were the first financial institution in Argentina to achieve this objective.
- Reducing our debt by US\$361.0 million, extending the average life of our outstanding debt, and reducing average interest rates, thus matching the term of lending and borrowing transactions, achieving proper financial intermediation margins and hedging of foreign currency-denominated liabilities.
- Achieving high liquidity levels, as reflected in the significant stock of liquid assets and stable cash flow from operations achieved during 2004 and 2005, resulting from our liquidity management policy and efforts aimed at maximizing collections on our loan portfolio.
- Reducing our exposure to the public sector.
- Attaining the best profitability and efficiency ratios in the Argentine banking system, by controlling operating expenses and assuring stable operating results.

At December 31, 2005, we ranked second in the financial system in terms of shareholders' equity, second in terms of net income and seventh in terms of total assets. As of December 31, 2005, our shareholders' equity was Ps.2,217.1 million compared to Ps.1,959.2 million in 2004, our net income was Ps.253.3 million compared to Ps.279.1 million in 2004, and our assets amounted to Ps.8,160.7 million compared to Ps.9,134.9 million in 2004

Our strategy to face the challenges of the new market conditions that prevailed in the aftermath of the crisis is focused on leveraging our sound financial position and developing a diversified banking business built on our existing mortgage franchise. Since our debt restructuring in 2004, we made significant progress in our business diversification strategy, having actively pursued the growth of our lending business and the development of new business lines, focusing our efforts on implementing integrated technological solutions to enable our entry into retail banking, extending our marketing network and creating back-office services to support our diversified business strategy. In 2004, as part of our business diversification strategy, we expanded our product offerings and began offering personal loans, resumed mortgage lending and launched pledge loans. The variety of corporate loan products was expanded and customer loyalty strategies were implemented. Moreover, during 2004 we saw sustained demand for retail and wholesale time deposits and savings accounts, and we started offering checking accounts. In addition, we launched the Visa Banco Hipotecario credit card, with growing levels of penetration in the market and higher transaction amounts. We also continued our strategy of expanding the offering of non-mortgage related insurance products we offer, including combined family, life, unemployment, health, personal accident and ATM robbery insurance. In 2005, we continued expanding these business lines as non-financial private sector loans increased on Ps.363.2 million, or 20%, principally as a result of mortgage loan originations, which more than doubled when compared to 2004, as well as by higher personal loans and credit card financing. Commercial loans to the private sector also increased by 19.2% during 2005 compared to 2004.

We seek to achieve a balanced portfolio of mortgage loans, consumer financing and corporate credit lines, while maintaining an adequate risk management policy.

As a result of our low leverage ratio, excess over minimum capital and cash requirements, conservative liquidity management policy, and balanced matching of financial assets and liabilities in terms of currency, term and interest rates, we have been able to pursue a consistent growth strategy. In addition, we have been able to access repeatedly the domestic and international capital markets through the issuance of several series of *Cédulas Hipotecarias* (securities backed by residential mortgage loans) in the local markets in an aggregate principal amount of approximately Ps.292.1 million. We also issued US\$150 million of our 9.75% notes due 2010 in November 2005 and re-opened such series of notes by issuing an additional US\$100 million in February 2006, becoming the first Argentine financial institution to access the international capital markets after the crisis. In 2005, we also experienced continued increases in deposits, including savings accounts and time deposits. As a result of our diversified funding strategy, the weighted average life of our liabilities was 4.6 years and the amortization schedule of our existing debt is gradual, accruing interest at a weighted average rate of 6.3%. Our aggregate external funding at December 31, 2005 was approximately US\$1.0 billion and our liquid assets and cash generation capacity has reduced our re-financing risk.

In 2005, we posted a return on average shareholders' equity of 11.7% and administrative expenses over assets of 1.90%. We also decreased the overall level of our indebtedness, reducing by US\$473.3 million the amount of our debt issued in the restructuring, increasing our liquidity by US\$350 million and increasing our solvency ratio from 21.7% in 2004 to 27.0% in 2005. We strengthened our balance sheet through the subscription of additional BODEN for US\$773.5 million par value. The ratio of our non-performing loans to total loans as of December 31, 2005 decreased to 7.44% from 11.32% as of December 31, 2004. Total loan reserves reached 106.5% at December 31, 2005 from 92.2% at December 31, 2004.

We believe that our operating performance and financial condition give us a competitive advantage over most other banks in Argentina and position us to expand our operations in the market, both through organic growth as well as by allowing us to have the financial strength to take advantage of potential strategic acquisition opportunities.

### **Our New Strategy**

Our strategy to face the challenges of the new market conditions that prevailed in the aftermath of the crisis, focused on leveraging our sound financial position and developing a diversified banking business built on our existing mortgage franchise. Since our debt restructuring in 2004, we made significant progress in our business diversification strategy, having actively pursued the growth of our lending business and the development of new business lines, focusing our efforts on implementing integrated technological solutions to facilitate our entry into

retail banking, extended our marketing channel network and created backup areas to support our diversified business strategy.

Beginning in 2004, we expanded our product offerings and began offering personal loans, resumed mortgage lending and launched pledge loans. The variety of corporate loan products was extended and customer loyalty strategies were implemented. Moreover, during 2004 we saw sustained demand for retail and wholesale time deposits and savings accounts, and we started offering checking accounts. In addition, we launched the Visa Banco Hipotecario credit card, with growing levels of penetration and higher transaction amounts. We also continued our strategy of expanding the offering of non-mortgage related insurance products we offer, including combined family, life, unemployment, health, personal accident and ATM robbery insurance.

In 2005, we saw continued expansion of these business lines as non-financial private sector loans increased Ps.363.2 million, or 20%, compared to 2004 principally as a result of mortgage loan originations, which more than doubled compared to 2004, as well as by higher personal loans and credit card financing. Commercial loans to the private sector also increased by 19.2% during 2005 compared to 2004. As a result of our low leverage ratio, excess over minimum capital and cash requirements, a conservative liquidity management policy, and balanced matching of financial assets and liabilities in terms of currency, term and interest rates, we have been able to pursue a consistent growth strategy. In addition, we have been able to repeatedly access the domestic and international capital markets, having issued *Cédulas Hipotecarias* (securities backed by residential mortgage loans) in the local markets in several series in an aggregate principal amount of approximately Ps.292.1 million and, in November 2005, we issued US\$150 million of our 9.75% notes due 2010, which, as a result of high demand, we were able to re-open and issue an additional US\$100 million in February 2006. With this transaction, we became the first Argentine financial institution to access the international capital markets after restructuring its debt portfolio following the crisis.

In 2005, we also experienced continued increases in deposits, primarily including savings accounts and time deposits. As a result of our diversified funding strategy, the weighted average life of our liabilities has been reduced to 4.6 years and the amortization schedule of our existing debt is very gradual, accruing interest at a weighted average rate of 6.3%. Our aggregate external funding at December 31, 2005 was approximately US\$1.0 billion and our liquid assets and cash generation capacity has reduced our financing risk. As of the date of this offering memorandum, we had total debt due to the Central Bank of approximately Ps.233 million.

In 2005, we posted a return on average shareholders' equity of 11.7% and administrative expenses over assets of 1.90%. We also reduced our overall level of indebtedness, reducing by US\$473.3 million the amount of our debt issued in the restructuring and have increased our liquidity by US\$350 million, and increased our solvency ratio 21.7% in 2004 to 27.0% at December 31, 2005. We strengthened our balance sheet through the subscription of additional BODEN for US\$773.5 million par value. The ratio of our non-performing loans to total loans as of December 31, 2005 decreased by 388 percentage points to 7.44% from 11.32% as of December 31, 2004. Total loan reserves reached 106.5% at December 31, 2005 from 92.2% at December 31, 2004.

The improvement in our operating income and strengthening of its financial condition have been reflected in the ratings assigned by Standard & Poor's, Fitch Argentina Calificadora de Riesgo and Moody's Investors Service. S&P placed our long-term foreign currency rating "B" on a global scale and "raA" on a local scale. Fitch rated "A(Arg)" our long term obligations on a local scale. The deposits held by Retirement and Pension Fund Managers in Banco Hipotecario S.A. were rated "raA-1" by Standard & Poor's International Ratings LLC (Argentine Branch) while the Bank's capacity of repayment of local currency deposits was rated "Aa1.ar" by Moody's. Such ratings provide a strong base for the Bank's strategy of developing a diversified retail banking business and place the Bank in a strategic position for increasing its deposit base and expanding business to new products.

### **New Lines of Business**

During most of 2003 and all of 2004 and 2005, we provided new financial services outside our traditional mortgage sector and launched new products not related to our traditional lines of business. As of December 31, 2005, these new lines of business included:

(i) providing working capital, medium-term lines of credit, trade financing, commercial loans and payment and cash management services to Argentine corporations,

(ii) medical, theft and fire insurance brokerage services,

(iii) purchase and sale of foreign currencies,

(iv) time deposits, savings accounts accruing fixed interest and checking accounts,

(v) personal loans and new mortgage loans,

(vi) pledge loans,

(vii) safety deposit box services,

(viii) securities brokerage services,

(ix) the Visa – Banco Hipotecario credit card, and

(x) utility payment and money transfer services.

### ***Short-Term Loans to Large Corporations***

In late 2002 we entered the corporate lending market after identifying sound business opportunities in this segment which was not being adequately served by financial institutions in Argentina. Therefore, we started providing selected services to leading companies, including providing short-term working capital loans. In 2003 we increased lending to this market segment and achieved increased penetration. At year-end 2003, our portfolio of loans outstanding to this segment amounted to Ps.120 million. This positive trend continued in 2004, when our goal was to increase customer loyalty and we created a broader range of products, achieving our objective of increased profitability and reduced risk. At year-end 2004, we had approved loans to this segment of Ps.500 million and outstanding loans as of December 31, 2004 amounted to Ps.222 million. During 2005, our corporate loan portfolio grew 58.3% reaching Ps.352 million.

The range of product offerings to corporate borrowers includes:

- Short-term financial loans: loans that do not exceed 180-day maturities, with principal balances ranging from Ps.1 million to Ps.50 million.
- Medium-term financial loans: at present, maturities are from two to four years and, in general, they require some sort of collateral, such as pledges. Amounts vary according to the “quality” of the borrower and the collateral.
- Special project financing: average maturities range from six to 36 months. These loans are structured on the basis of special guarantees such as assignment of contracts or cash flows for specific projects, assignment of work-completion certificates, among other alternatives. Amounts also vary based on the “quality” of the borrower and the project to be financed.
- Factoring: short-term financial loans to suppliers of leading companies, by discounting checks issued by leading companies.

Our objective in this segment is to target high quality companies that operate in sectors of the Argentine economy with the highest growth potential.

### ***Insurance***

The growth of our insurance business is based on three key factors. In the first place, we provide insurance coverage for financial products originated by us (loans, checking accounts and credit cards). Therefore, any growth

in the origination of these products necessarily results in an increase in our insurance contribution. See “Insurance Products”. Second, we offer home insurance and additional life insurance to our customers. In all cases we assume the risk, collect the premiums and pay claims. We offer these types of coverage only to our current clients or clients whose home we financed. We also act as brokers in the marketing of certain insurance products for our clients which are underwritten by first-line insurers and collect a fee for these transactions. The premiums and claims are borne by the external insurance company. At December 31, 2005, we had a portfolio of approximately 59,797 active voluntary insurance policies.

### ***Purchase and Sale of Foreign Currency***

In February 2002, we started to trade in foreign currency and in June 2002 we began to offer the purchase and sale of US dollars to retail customers at our branches. In April 2003, we also introduced the purchase and sale of Euros. At December 31, 2005, the total volume of operations was Ps.516.9 million.

### ***Retail Time Deposits, Savings Accounts and Checking Accounts***

We launched time deposits during the first half of 2003 as an alternative to funding in the local and international capital markets. We have offered savings accounts since our privatization; however, by mid-2003 we started to offer fixed interest rates in line with our new commercial strategy and increased efforts to position our brand name. In August 2004 we began to offer checking accounts as an additional product. The outstanding amount of deposits in our retail business in 2004 increased by 207% compared to 2003, including retail time deposits, savings accounts and advances in checking accounts, to Ps.168 million compared to Ps.54.8 million. Additionally, the amounts of purchases with debit cards rose throughout the period, as the continuation of a process that started with the implementation of the reimbursement of 5% of the VAT whenever a purchase is paid by debiting the holder’s account. At December 31, 2005, wholesale time deposit transactions amounted to Ps.159.7 million. In addition, the outstanding amount of deposits in our retail business at December 31, 2005 increased to Ps.348.3 million.

### ***Personal Loans***

During the first half of 2003 we launched a line of personal loans initially intended only for our clients. We gradually reoriented this product towards clients in the open market. Personal loans are marketed on the basis of a diversified channel strategy, as more than 30% of the stock of loans is contributed by marketing channels other than our own branches, and we expect a significant increase in our share of segments. The demand for loans grew in 2004 reflecting improvement in the economy. Total originations in 2004 amounted to Ps.19.8 million. We started 2005 with originations amounting to Ps.6.5 million and increased to Ps.16.0 million at December. This growth resulted from efforts through our branch network accompanied by the origination of loans through alternative channels. During 2005 we originated Ps.140.9 million of personal loans.

### ***New Mortgage Loans***

In November 2003, we announced the launch of two new mortgage products called “Casa Plus”, with terms of five and ten years. Under this line, in February 2005 we launched 15- and 20-year mortgage loans and reduced interest rates for mortgage loans with shorter maturity. These new mortgage products are available to customers who are seeking to acquire, improve, build a residential property or cancel debts to other banks. The amount of the loan may not exceed 70% of the value of the mortgaged property in case of acquisition or construction, or 50% for any other purpose.

### ***Pledge Loans***

In September 2004, we started to offer pledge loans for automobiles through a retailer. These loans are granted for a maximum term of 48 months, are denominated in pesos, accrue interest at a fixed rate and the maximum loan amount is Ps.60,000. The maximum loan-to-value (LTV) ratio is 50%.

### ***Dollar Deposits***

In addition to peso-denominated savings accounts and time deposits, in August 2004 we began offering dollar-denominated deposits. While expanding our range of funding sources, this new line covers a growing demand from the public to increase dollar deposits. Dollar deposits are allocated to the financing of foreign trade operations.

### ***Visa Credit Card***

In the second quarter of 2004, we entered into an agreement with Visa Argentina S.A. to issue National, International and Gold Visa Credit Cards, and in August 2004 we launched the Visa BHSA Credit Card. The design of this product has provided easy consumption financing for individuals, at very competitive financing rates and affords additional features aimed at encouraging consumption. Both the design of the product and the marketing focus are targeted at multi-segment audiences.

As of December 31, 2005, we had a total number of 89,421 credit card accounts (excluding extensions) with a total balance for transactions of Ps.3.4 million (Ps.1.6 million as balance for the months and Ps.1.8 million as installments to become due). In 2005, we originated almost 58,700 new credit cards with daily activity.

### ***Foreign Trade Operations***

In the last quarter of 2003 we started trading in foreign currencies with export companies. Through 2004, we managed to start up this business with top tier Argentine exporters, reaching a total traded volume of more than Ps.133.0 million. Our 2005 target, beyond increasing the trading volume in this business line, is to incorporate a new foreign trade related product: Exports Pre-finance.

## **Mortgage Lending**

### ***Summary Description of Loan Portfolio***

At December 31, 2005, our loan portfolio totaled Ps.2,595.9 million and Ps.1,634.4 million in mortgage loans, comprising Ps.821.2 million in pre-1991 loans and Ps.813.2 million in post-1991 loans. We service all pre- and post-1991 loans, including post-1991 loans to individuals that have been securitized through off-balance sheet structures. See "Selected Statistical Information" for additional information regarding our loan portfolio.

The following table sets forth loans in our loan portfolio at the dates indicated.

	At December 31,			Variation (%)	
	2005	2004	2003	2005/2004	2004/2003
	(in millions of constant pesos as of February 28, 2003, except for percentages)				
Pre-1991 loans:					
Individual mortgage.....	Ps. 819.9	Ps. 966.8	Ps. 1,089.7	(15.2)	(11.3)
Construction project.....	<u>1.3</u>	<u>1.4</u>	<u>1.4</u>	(5.5)	(0.7)
Total .....	Ps. 821.2	Ps. 968.2	Ps. 1,091.1	(15.2)	(11.3)
Post-1991 loans:					
Individual mortgage(1).....	Ps. 809.4	Ps. 953.1	Ps. 1,101.5	(15.1)	(13.5)
Construction project.....	<u>3.8</u>	<u>6.1</u>	<u>16.6</u>	(38.0)	(62.9)
Total .....	Ps. 813.2	Ps. 959.2	Ps. 1,118.1	(15.2)	(14.2)
Other loans(3) .....	Ps. 961.5	Ps. 1,280.5	Ps. 1,056.5	(24.9)	21.2
Loan portfolio .....	Ps. 2,595.9	Ps. 3,207.9	Ps. 3,265.7	(19.1)	(1.8)
Securitized mortgage loans(2) .....	<u>Ps. 410.8</u>	<u>Ps. 290.4</u>	<u>Ps. 328.8</u>	41.5	(11.7)
Total managed loan portfolio.....	Ps. 3,006.7	Ps. 3,498.3	Ps. 3,594.5	(14.1)	(2.7)

- (1) Includes Ps.112.1 million, Ps.255.6 million and Ps.308.2 million as of December 31, 2005, 2004 and 2003, respectively, in mortgage loans conveyed in trust in anticipation of future securitizations. See "Securitization Activities."
- (2) Securitized mortgage loans as of December 31, 2005, 2004 and 2003 includes Ps.410.8 million, Ps.290.4 million and Ps.328.8 million of post-1991 loans securitized through BHN I Mortgage Fund, BHN II Mortgage Trust, BHN III Mortgage Trust, BHN IV Mortgage Trust and BACS I Mortgage Trust, BACS Funding I Mortgage Trust, BACS Funding II Mortgage Trust and BHSA I 2002 Mortgage Trust, CHA I, CHA II, CHA III, CHA IV and CHA V.
- (3) Includes Ps.88.9 million, Ps.453.0 million and Ps.452.6 million as of December 31, 2005, 2004 and 2003, respectively, in Guaranteed Government Loans.

### ***Individual Mortgage Lending***

Historically, we distributed our products through a nationwide network of 25 branches and 14 sales offices (which were reduced to three sales offices at December 31, 2002) and, to a lesser extent, through a network of approximately 24 commercial banks (the "Bank Branch Network") which generally have not developed their own mortgage operations.

The following table sets forth the disbursements of our mortgage loans to individuals for the periods indicated:

	Fiscal year ended December 31,					
	2005		2004		2003	
	(in millions of constant pesos as of February 28, 2003, except for percentages)					
Bank Branch Network.....	Ps. 224.0	99.6%	Ps. 37.9	97.4%	Ps. 1.0	71.4%
Agreements with selected real estate development companies.....	<u>1.0</u>	<u>0.4%</u>	<u>0.9</u>	<u>2.6</u>	<u>0.4</u>	<u>28.6</u>
Total .....	Ps. 225.0		Ps. 38.9	100.0%	Ps. 1.4	100.0%

In November 2003, we announced the launch of two new mortgage products with terms of five and ten years. In February 2005 we launched 15- and 20-year mortgage loans and reduced interest rates for loans with shorter maturities. These new mortgage products are available to customers who are seeking to acquire, improve, build a residential property or cancel debts to other banks. The amount of the loan may not exceed 70% of the value of the mortgaged property in case of acquisition or construction, or 50% for any other purpose.

Our five-year mortgage loans under this new program bear a fixed rate of 9% per annum or a floating rate based on the rate for 30-59 day term deposits published by the Central Bank, plus a margin, which shall be at least 7.50% per annum. In our ten-year mortgage loan line, the loans bear a fixed rate of 9.75% or a floating rate with a



minimum of 8% per annum. In our 15-year mortgage loan line, the loans bear the same fixed rate as a ten-year term loan or a floating rate with a minimum of 8.50% per annum. Finally, our 20-year mortgage loan line is available only with a fixed rate 9.75% per annum.

### *Distribution Channels*

*Bank's Branch Network.* Our branch network currently consists of 25 branches, one in each province and one in the City of Buenos Aires, and three sales offices located in Bahía Blanca, Río Cuarto and San Rafael (the "Branch Network"). Our branch network loans, however, do not have the benefit of any third party guarantee. We disbursed Ps.224 million, Ps.37.9 million and Ps.1.0 million in individual mortgage loans in 2005, 2004 and 2003, respectively.

While historically our Branch Network served as a liaison with various customers, particularly developers and individual mortgage holders, we hope to use our Branch Network as a means to distribute our new products. Given the Bank's name recognition and solid reputation throughout Argentina, we believe that the Branch Network will be a key component in our efforts to develop new banking products and to increase deposits.

Our new product distribution policy is based on four pillars:

- branches;
- direct marketing;
- our sales force; and
- third-party channels.

Direct marketing will be principally used to reach existing and potential customers, for purposes of cross-selling actions. This strategy is mainly based on the use of technological tools specifically designed to cause processes to be more intelligent, by segmenting the data base in order to improve communications efficiency and attain a better acceptance of our products.

Centralized and branches' sale forces are mainly in charge of generating the sale of our new products to new customers.

We have implemented and continue to actively develop external distribution channels to supplement our distribution network with third parties capable of generating sales of our products. This is a key strategy to contact customers in a non-traditional way at the points where their transactions are made (for instance, real estate agencies, car dealers, etc.).

We are seeking to have our distribution and selling channels oriented towards offering a wider range of products to a larger universe of potential customers. In addition to our traditional selling platform at branches we have made business alliances seeking to supplement our activities with strategic partners contributing value to the distribution chain, thus reducing the cost of customer acquisition and placement of new products.

### **Insurance Products**

We are authorized to conduct insurance activities directly (i.e., not through a separate insurance subsidiary), provided that such insurance relates to the risks of the transactions we are engaged in or the property financed by us. This authorization expires in August 2007. Although our insurance business is not subject to supervision and regulation by the National Superintendency of Insurance, we determine and maintain provisions and reserves related to this business in accordance with the methods required by the National Superintendency of Insurance. See "Argentine Insurance System and Regulation." The Privatization law permits us, prior to August 2007, and requires us thereafter, to organize wholly-owned insurance subsidiaries for our insurance business. Central Bank regulations generally preclude financial institutions from holding an interest in excess of 12.5% in another entity unless the activities of such entity are deemed complementary to the activities of the financial institution. If Central Bank regulations are not amended by August 2007 and if the activities of our insurance

subsidiaries are not deemed to be complementary to our banking activities, we will likely be required to divest the interest in excess of 12.5% in our insurance subsidiaries by that date.

### ***Credit-related insurance***

Historically, we have required that individual mortgagors insure, with us, certain credit-related risks. The insurance coverage that is provided in the case of mortgage loans includes life insurance to mortgagors, property damage insurance over the mortgaged property, and in certain loans, unemployment insurance to mortgagors. In the case of personal loans, coverage only includes life insurance for the borrowers.

### ***Life Insurance***

To be life insured is a condition to extending a loan and we provide life insurance to our borrowers. At December 31, 2005, 58.99% of our managed loan portfolio (based on the aggregate principal balance of the portfolio) was covered by life insurance issued by us. One of the reasons for this low ratio is that upon failure to pay three or more monthly installments, the insurance coverage is automatically suspended. In addition, in many cases the insurance is also terminated when the borrower reaches the oldest age for coverage maintenance.

### ***Property Damage Insurance***

Property damage insurance is required for individual borrowers. As of December 31, 2005, 56.59% of the portfolio of individual loans (based on the number of loans) was covered and our aggregate exposure was Ps.5,981 million.

In general, we provide coverage to mortgagors for damages caused to the insured property as a result of the direct or indirect action of fire, lightning or explosion. We also insure borrowers for direct damage to the insured property caused by, among other things, civil commotion, strikes, other acts of vandalism, terrorism (provided that they are not part of acts of either civil or international war, rebellion or guerrilla warfare), impact of aircraft and land vehicles, hurricanes, tornadoes and high winds. In the provinces with risk of earthquake we provide mandatory earthquake coverage.

### ***Unemployment Insurance***

We do not longer require unemployment insurance from our mortgagors. However, this insurance was required and is maintained for those loans that already had this coverage. As of December 31, 2005, 4.21% of the managed loan portfolio (based on the number of loans) was covered by unemployment insurance issued by us.

### **Other Optional Credit-Related Insurance**

These insurance products are optional and supplement credit-related insurance. In all cases we assume the full underwriting risk, collect premiums and pay claims. These insurance policies may be only acquired by our current clients or persons whose property was financed by us (BH Hogar). BH Hogar provides homeowner's insurance, which protects assets existing in the home against the risks of fire, robbery and others. At December 31, 2005 the aggregate exposure of the insurance was approximately Ps.517 million.

BH Vida Plus insures loan debt balances subject to a maximum of Ps.20,000 and a minimum of Ps.3,000. In case of death, the beneficiary appointed by the insured receives the insurance proceeds. At December 31, 2005 the aggregate risk exposure of approximately Ps. 90.43 million

### **Insurance Brokerage**

We also act as insurance broker in the marketing of certain kinds of insurance products for our clients, extended by leading insurers. We earn a fee for these operations, and the premiums and claims are borne by a third insurance company. As of December 31, 2005, we had 17,000 Personal Accident insurance policies and 3,900 Health insurance policies and 8,400 policies of ATM robbery insurance products.

## Provincial Housing Institutes

Under Law 21,581 we are empowered to insure construction projects and individual homes financed with FONAVI funds. We also have authority to provide life insurance to these debtors. As of December 31, 2005, we provided property damage insurance to almost approximately 41,400 homes, with an aggregate risk exposure in excess of Ps.919 million. We also provide credit life insurance to almost 2,717 clients, with an aggregate risk exposure of approximately Ps.40.6 million.

## Premiums, Claims and Reserves

For our insurance activities, in 2003, 2004 and 2005, we recorded income from insurance premiums (excluding brokerage fees) of Ps.48.3 million, Ps.43.4 million and Ps.48.0 million, respectively, and paid claims for Ps.8.6 million, Ps.7.9 million and Ps.8.3 million, respectively. Prior to June 30, 1997, we were not required to maintain insurance reserves and our insurance operations were relatively small. As of December 31, 2005, we maintain a voluntary reserve establishing sufficient funds to pay claims in case of a new catastrophic event.

At December 31, 2005, we maintained reserves for:

- Incurred but not reported insurance claims of Ps.0.6 million;
- outstanding claims of Ps.1.8 million;
- unearned premiums of Ps.1.83 million; and
- catastrophe reserve of Ps.0.5 million.

In accordance with the Privatization law, as of December 31, 2005, we were in compliance with the National Superintendency of Insurance's regulations concerning provision and reserve requirements. See "Argentine Insurance System and Regulation—Required Reserves."

## Mortgage Servicing

As the result of our leading mortgage lending position and the implementation of our securitization program (described below), we have developed unique loan servicing capabilities in Argentina, servicing approximately 236,000 loans at December 31, 2005, which include loans originated by our branch network, mortgage loans held by IPV and mortgage loans which have been securitized (for which we act as master servicer and for some of which we act as primary servicer). The responsibilities of master servicing include monitoring the servicing of mortgage loans by servicers (including the Bank acting as primary servicer), remitting collections and finishing reports relating to the performance of the servicer and the condition of the portfolio.

As primary servicer, we use the same payment and collection mechanisms and facilities to service third party mortgage loans as we utilize to service our own portfolio. We send invoices to borrowers monthly and collect payments at our 25 branches and at the approximately 5,200 collection points operated by our 25 collection agents (the "Correspondents Network"). We pay a fee to participants in the Correspondents Network for this service. Funds collected by participants in the Collection Network are remitted to us within three business days of receipt from borrowers. In January 1996, we introduced the option of allowing payments to be made through the Link automated teller machine (ATM) network, thus increasing our collections points by 3,300 ATMs located throughout Argentina. In 1999 we introduced monthly automated debit from clients' accounts and in 2002 we introduced "*Rapipago*" and "*Pagofacil*" collection services, thus incorporating most of the "*Correo Argentino*" postal service branches as collection points.

Third party mortgage loans serviced by us at December 31, 2005 included approximately 14,900 securitized mortgage loans with an outstanding principal balance of approximately Ps.410.8 million and approximately 45,800 IPV loans with an outstanding principal balance of approximately Ps.714.0 million. We also serviced approximately 156,700 mortgage loans in our own portfolio totaling approximately Ps.1,649.1 million at December 31, 2005. We earn a fee on our third party mortgage servicing, which is calculated on the basis of the actual collections in the case of IPV mortgage loans, and on the basis of outstanding balances with respect to the outstanding debt balance of securitized mortgage loans. Total mortgage servicing fees in 2003, 2004 and 2005 were

Ps.3.1 million, Ps.2.2 million and Ps.1.7 million, respectively, of which Ps.2.5 million, Ps.2.0 million and Ps.1.6 million, respectively, were derived from servicing fees on IPV loans and the remaining Ps.0.6 million, Ps.0.2 million and Ps.0.1 million, respectively, from our securitized loans.

### ***Collection and Payment Services***

Pursuant to Argentine law, we act as payment agent for FONAVI with respect to housing subsidies payable by the Argentine government to the Argentine provinces. In 2003, 2004 and 2005, we earned Ps.3.0 million, Ps.3.0 million and Ps.3.2 million, respectively, in fee income from this activity. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

### **Securitization Activities**

We maintain a securitization program comprised of off-balance-sheet non-recourse, pass-through securitizations. We have established thirteen separate trusts under our off-balance-sheet non-recourse pass-through securitization program. The first mortgage trust (BHN I Mortgage Fund) was established in October 1996 with approximately US\$93.0 million of mortgage loans and a reserve fund of US\$9.7 million. The second mortgage trust (BHN II Mortgage Trust) was established in May 1997 with approximately US\$106.6 million of mortgage loans and a reserve fund of US\$1.4 million. The third mortgage trust (BHN III Mortgage Trust) was established in October 1997 with approximately US\$105.4 million of mortgage loans and a reserve fund of US\$1.4 million. The fourth mortgage trust (BHN IV Mortgage Trust) was established in March 2000 with approximately US\$195.0 million of mortgage loans and a reserve fund of US\$8.1 million. The fifth mortgage trust (BACS I) was established in February 2001 with approximately US\$115.9 million of mortgage loans and a reserve fund of US\$3.1 million. The sixth mortgage trust (BACS Funding I) was established in November 2001 with approximately US\$29.9 million of mortgage loans. The seventh mortgage trust (BACS Funding II) was established in November 2001 with approximately US\$12.1 million of mortgage loans. The eighth mortgage trust (BHSA I 2002) was established in February 2002 with approximately US\$43.4 million of mortgage loans.

The ninth trust (Argentine Mortgage Bonds Financial Trust Series I, 2004 - 1) was established in June 2004, with approximately Ps.50.0 million of mortgage loans. The tenth trust (Argentine Mortgage Bonds Financial Trust Series II, 2004 - 2) was established in November 2004, with approximately Ps.50.0 million of mortgage loans. The eleventh trust (Argentine Mortgage Bonds Financial Trust Series III, 2005 - 1) was established in April 2005, with approximately Ps.62.5 million of mortgage loans. The twelfth trust (Argentine Mortgage Bonds Financial Trust Series IV, 2005 - 2) was established in June 2005, with approximately Ps.64.6 million of mortgage loans. The thirteenth trust (Argentine Mortgage Bonds Financial Trust Series V, 2005 - 3) was established in October 2005, with approximately Ps.65.0 million of mortgage loans. The total outstanding principal balance of these thirteen securitizations was Ps.432.0 million at December 31, 2005.

On March 30, 2000, the Central Bank approved the incorporation of a new entity called BACS—Banco de Crédito y Securitización S.A. The shareholders of this new bank are the Bank, IRSA Inversiones y Representaciones S.A., International Finance Corporation, an affiliate of the World Bank, and Quantum Industrial Partners. The purpose of this financial institution was to promote the development of a secondary mortgage market in Argentina. BACS acted as the arranger for the sixth, seventh, eighth and ninth mortgage trust mentioned above and as the dealer manager for the fifth one.

### **Information Systems**

In 2004 and 2005, efforts in the systems area were focused on the implementation of a core system solution to support the Bank’s expansion of business into commercial banking. Moreover, we continued fulfilling the project’s plan, including the tasks related to the definition of the sections, development, distribution and installation of the required technological infrastructure, training for all users, tests and approval of the different products until the production setting of the complete system in our scheduled date.

In November 2004 we started to generate an important link between the commercial area and the Systems and Processes Development Management, in order to better understand the new business needs and to administer

different sections that manage all of the Bank's products. Concurrently with the accomplishment of the core solution, we implemented the generation of a commercial base to be used by the Marketing area in its sales campaigns. In addition, we designed and implemented the process of generation of pre-embossed credit cards so as to launch massive campaigns to selected preexisting clients.

We implemented the SAP expense management module, a tool that will result in a better and more economical control of corporate expenses. We are also working towards launching the project of migration of the current SAP version to an upgraded one that will provide greater flexibility in the integration of the different applications on the SAP system.

## Employees

As of December 31, 2005 we had 993 employees, 645 of whom worked at our headquarters and the remaining 347 at our branches. The following table sets forth the number of our employees as of the dates indicated.

	As of December 31,			
	2005	2004	2003	2002
Main office .....	645	558	535	644
Branches .....	<u>348</u>	<u>328</u>	<u>339</u>	<u>433</u>
Total .....	993	886	874	1,077

At February 28, 2006, 768 of our employees were subject to a collective bargaining agreement which was executed on July 8, 2005 and will expire on June 30, 2007.

We have experienced two labor stoppages in the past three years, which were limited to only 12% of the Bank's employees. These stoppages were part of a nationwide labor movement and not restricted to the Bank's employees.

## Litigation

At December 31, 2005, we had reserves of approximately Ps.95.6 million in respect of various legal actions and claims compared to Ps.103.1 million at December 31, 2004. The amount of the reserves was determined by taking into account amounts claimed and the probability of loss. Except as disclosed below regarding the legal actions filed against us, we consider these actions and claims to be in the ordinary course of our operations and do not believe that any such claims, either individually or in the aggregate, are likely to have a material adverse effect on our business, operations or financial condition.

In April, May and September 2000, we were served with three foreclosure actions filed against us by the *Instituto de Servicios Sociales Bancarios*, or the Institute of Banking Social Services, for an aggregate amount of approximately Ps.335.0 million. The plaintiff claims that during the period from 1989 to 1995 we deposited with the Institute less than the required 2% of the interest earned on our outstanding loans. This claim has been dismissed by a First Instance judgment and although the plaintiff has filed an appeal, in our opinion, the reversal of such judgment is highly improbable, primarily due to the fact that the claims are related to obligations assumed by the Argentine government pursuant to the Privatization law. There can be no assurance, however, that adverse relief will not be granted in connection with such claims. As a result, the success of such claims could have an adverse effect on our business operations or financial condition.

In May 2003, an Argentine court rendered judgment directing us to pay an amount that, at the date of the judgment, was approximately Ps.40 million in connection with a proceeding initiated by a private developer who received financing for the construction of certain projects. The developer alleged that we breached certain of the original conditions of the financing contract and the operating framework of such financing. We currently face other similar claims by other private developers or construction companies that involve an additional amount of approximately Ps.300 million in the aggregate. We have appealed the May 2003 court judgment and the Commercial Court of Appeal partially confirmed the ruling, directing us to pay 80% of the damages, plus accrued

interest; provided however, that new accounting report (“pericia contable”) is submitted. Afterwards, we filed an appeal before the Supreme Court, which is still pending of admission. We believe that our appeal before the Supreme Court may be successful, the possible confirmation of the judgment and/or the eventual extension of the ruling to other proceedings could materially adversely impact our financial condition and results of operations.

As of the date of this offering memorandum, the Bank has been sued by sixteen individual bondholders who have presented summary claims (*juicios ejecutivos*), as a result of the Bank’s default in the payment of its outstanding bonds plus accrued interest. The aggregate amount of the claims is approximately US\$1.32 million. These claims are being litigated before the commercial courts in the City of Buenos Aires. Although the Bank has asserted certain defenses challenging bondholders’ claims, it is unlikely that such defenses will result in dismissal of the pending claims.

## **CNV Proceedings**

### ***Proceeding initiated in July 2005***

On July 22, 2005, the CNV served formal notice to the Bank, its board of directors, the members of its supervisory committee and our market relationship manager that the CNV had initiated a proceeding (a “*sumario*”) against all each of them and us, in which it questioned the validity and amount of certain payments made in 2005 (in connection with the fiscal year 2004) to the members of our executive committee and to certain of our senior management under our management compensation plan, as well as the publicity given to them. Our management compensation plan was approved by our shareholders at the shareholders meetings held on April 28, 1999 and May 31, 2004. See “Management—Compensation”.

The members of our executive committee voluntarily deposited the amount of fees received by them in escrow accounts maintained with the Bank, pending the shareholders’ meeting specially called by our board of directors to specifically approve the objected payments, and filed (as we and the other charged parties did) their defenses before the CNV.

At the shareholders meeting held on August 31, 2005, 97.89% of our capital stock was represented and voted. The compensation payments that were the subject of the *sumario* presented by the CNV and, in particular, the amounts of Ps.2.8 million paid in respect of profit sharing and Ps.17.5 million paid in respect of stock appreciation rights, accrued during the course of the fiscal year ended December 31, 2004, were approved at the shareholders’ meeting by the favorable vote of a majority of the shares present. The Argentine government, in its capacity as shareholder, voted against the approval of the compensation payments in question.

On September 30, 2005, the CNV issued Resolution No. 15,205, whereby it imposed on the Bank a fine of Ps.1,000,000, to be paid jointly by the members of our executive committee, in the understanding that all of them breached certain rules and regulations in force. In addition, it released the rest of the directors from certain charges and imposed on them admonition sanctions on account of other charges, and issued warnings against the members of the supervisory committee and market relations manager. On October 25, 2005, the directors, together with the Bank, appealed the fines and the decisions from the CNV.

On February 14, 2006, the company was served notice of a court order that provisionally suspended the compensation payments approved by the shareholders’ meeting held on August 31, 2005. Such order was made effective on the time deposits that were held in the Bank as of that date.

### ***Proceeding initiated in August 2005***

On August 25, 2005, the CNV initiated a second *sumario*, against certain of the Bank’s principal shareholders and directors, alleging manipulation in the market price of the Bank’s shares supposedly achieved by an increase in the volume of shares traded from November 1, 2004 through February 14, 2005. The CNV based its *sumario* on the fact that the increase in the Bank’s share price, which was in the range of approximately 79% during the period in question, could solely be due to the intervention and manipulation in the market on the part of the

shareholders and individuals referred to in the *sumario*, intervention that reportedly consisted in sales of shares by two of them and sales and purchases of shares by the third shareholder.

We understand that: (a) the legal representatives of the shareholders argued that the CNV did not have standing to sue them; and (b) the shareholders and the other charged parties filed a series of substantive defenses aimed at establishing that there was no market manipulation whatsoever, arguing that: (i) there is no causal relationship between the increased trading of the Bank's shares and the higher market price; (ii) there are different variables, both internal and external to the Bank, that explain their market price and prospects of the Bank, as well as the appreciation of the shares that occurred during the period under investigation, which relate to the Bank's favorable results, sound fundamentals, and the relative lagging of its market prices prior to this period compared to securities of other financial institutions in Argentina; (iii) no direct relationship was proved to exist between the appreciation in the value of the Bank's shares and the transactions carried out by the charged parties; (iv) a significant portion of the shareholders' sales volume is explained by new, genuine, direct demand from foreign institutional investors; and (v) the apparent significance of the shareholders' share in the trading volume has an almost linear relationship with their shareholding percentage, given their capacity as principal shareholders who own more than 40% of the Class D shares.

This proceeding can be lengthy and its outcome is uncertain. Under its regulations, the CNV may impose penalties (which might include monetary fines and other measures as provided by the applicable law) to the charged parties, if it were proved that the increase in the traded volumes was the direct and exclusive cause of the increase in the price of our shares from November 2004 through February 2005.

### **Property**

We own 25 of our offices. In addition, to replace our Buenos Aires headquarters building which was transferred to the Argentine government pursuant to the Privatization, in 1999 we purchased and renovated a nearby building for an estimated aggregate cost of approximately US\$32.8 million.

## SELECTED STATISTICAL INFORMATION

We included the following information for analytical purposes and you should read it in conjunction with our audited financial statements, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors.” We have derived this information from our financial records that are maintained under Central Bank accounting rules. It does not reflect adjustments necessary to reflect the information in accordance with U.S. GAAP. The average balances do not include the balances of BHN Sociedad de Inversión SA, which are not material.

### **Average Balances, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities; Average Nominal and Real Rates**

The average balances for interest earning assets and interest-bearing liabilities have been calculated on the basis of our daily balances. Average balances have been presented in Argentine pesos and in US dollars because of the different rates of interest that have historically been earned and paid in Argentina on assets and liabilities denominated in those currencies.

We exchanged Euro-denominated notes into US dollar liabilities for Euro 250.0 million. The combination of the Euro-denominated liabilities and the Euro-denominated receivables and the US dollar-denominated payables arising from the swaps is presented as net dollar assets or liabilities as appropriate. In addition, we have considered a notional capital for a Swap CER/US dollar as an asset or liabilities. The classification of line items in the following average balances differs in certain respects from the balances as they appear in our audited financial statements.



**For the Year Ended December 31,**

	2005			2004			2003		
	Average Balance	Financial Income	Average Nominal Rate (%)	Average Balance	Financial Income	Average Nominal Rate (%)	Average Balance	Financial Income	Average Nominal Rate (%)
(in thousands of Pesos, except for percentages)									
<b>ASSETS</b>									
<b>Interest Earning Assets</b>									
<b>Cash and due from banks</b>									
Pesos.....	48,215	1,440	2.99%	37,178	309	0.83%	42,981	418	0.97%
US dollars.....	208,995	32,837	15.71%	309,698	13,712	4.43	200,598	18,164	9.05%
Total.....	257,210	34,277	13.33%	346,876	14,021	4.04%	243,579	18,582	7.63%
<b>Government securities (1)</b>									
Pesos.....	557,349	99,599	17.87%	317,661	51,241	16.13%	—	—	—
US dollars.....	443,062	36,629	8.27%	405,995	15,163	3.73	—	—	—
Total.....	1,000,411	136,228	13.62%	723,656	66,404	9.18%	—	—	—
<b>Compensatory Bonds</b>									
Pesos.....	—	—	—	—	—	—	—	—	—
US dollars.....	2,293,838	55,605	2.42%	2,646,171	40,190	1.52%	2,646,504	36,078	1.36%
Total.....	2,293,838	55,605	2.42%	2,646,171	40,190	1.52%	2,646,504	36,078	1.36%
<b>Government Guaranteed Loans</b>									
Pesos.....	587,946	131,518	22.37%	640,102	75,859	11.85%	578,263	66,343	11.47%
US dollars.....	—	—	—	—	—	—	—	—	—
Total.....	587,946	131,518	22.37%	640,102	75,859	11.85%	578,263	66,343	11.47%
<b>Pre-1991 loans – individual</b>									
Pesos.....	908,286	79,397	8.74%	1,022,780	86,513	8.46%	1,164,615	102,866	8.83%
US dollars.....	—	—	—	—	—	—	—	—	—
Total.....	908,286	79,397	8.74%	1,022,780	86,513	8.46%	1,164,615	102,866	8.83%
<b>Pre-1991 loans - construction project</b>									
Pesos.....	—	—	—	—	—	—	4,468	319	7.14%
US dollars.....	—	—	—	—	—	—	—	—	—
Total.....	—	—	—	—	—	—	4,468	319	7.14%
<b>Post-1991 loans – individual</b>									
Pesos.....	808,897	90,443	11.18%	987,338	167,983	17.01%	1,100,969	199,285	18.10%
US dollars.....	638	50	7.84%	1,291	103	7.98	696	93	13.36
Total.....	809,535	90,493	11.18%	988,629	168,086	17.00%	1,101,665	199,378	18.10%
<b>Post-1991 loans - construction project</b>									
Pesos.....	5,802	593	10.22%	10,648	516	4.85%	152,547	4,673	3.06%
US dollars.....	—	—	—	—	—	—	—	—	—
Total.....	5,802	593	10.22%	10,648	516	4.85%	152,547	4,673	3.06%
<b>Other loans</b>									
Pesos.....	415,558	54,953	13.22%	259,378	21,788	8.40%	265,979	24,617	9.26%
US dollars.....	71,997	5,079	7.05%	84,177	6,069	7.21	152,557	3,908	2.56%
Total.....	487,555	60,032	12.31%	343,555	27,857	8.11%	418,536	28,525	6.82%
<b>Interbank loans</b>									
Pesos.....	44,027	1,446	3.28%	28,045	705	2.51%	—	—	—
US dollars.....	366	17	4.64%	—	—	—	—	—	—
Total.....	44,393	1,463	3.30%	28,045	705	2.51%	—	—	—
<b>Collateralized mortgage obligations</b>									
Pesos.....	232,551	19,794	8.51%	178,752	50,531	28.27%	78,216	34,598	44.23%
US dollars.....	—	—	—	—	—	—	—	—	—
Total.....	232,551	19,794	8.51%	178,752	50,531	28.27%	78,216	34,598	44.23%
<b>Other assets</b>									
Pesos.....	113,747	73,580	64.69%	47,622	22,388	47.01%	12,211	105	0.86%
US dollars.....	—	—	—	—	—	—	—	—	—
Total.....	113,747	73,580	64.69%	47,622	22,388	47.01%	12,211	105	0.86%
<b>Non-assignment</b>									
Pesos.....	—	4,465	—	—	41,785	—	—	91,789	—
US dollars.....	—	48,768	—	—	126,552	—	—	429,594	—
Total.....	—	53,233	—	—	168,337	—	—	521,383	—
<b>Total interest earning assets</b>									
Pesos.....	3,722,378	557,228	14.97%	3,529,504	519,618	14.72%	3,400,249	525,013	15.44%
US dollars.....	3,018,896	178,985	5.93%	3,447,332	201,789	5.85	3,000,355	487,837	16.26%
Total.....	6,741,274	736,213	10.92%	6,976,836	721,407	10.34%	6,400,604	1,012,850	15.82%
<b>Non-Interest Earning Assets</b>									
<b>Cash</b>									

For the Year Ended December 31,

	2005			2004			2003		
	Average Balance	Financial Income	Average Nominal Rate (%)	Average Balance	Financial Income	Average Nominal Rate (%)	Average Balance	Financial Income	Average Nominal Rate (%)
	(in thousands of Pesos, except for percentages)								
Pesos.....	16,611			13,804			11,759		
US dollars.....	<u>28,302</u>			<u>29,575</u>			<u>28,321</u>		
Total.....	44,913			43,379			40,080		
<b>Fixed assets</b>									
Pesos.....	112,284			120,604			132,256		
US dollars.....	<u>—</u>			<u>—</u>			<u>—</u>		
Total.....	112,284			120,604			132,256		
<b>Other</b>									
Pesos.....	367,891			337,555			585,645		
US dollars.....	<u>804,670</u>			<u>851,211</u>			<u>1,156,848</u>		
Total.....	1,172,561			1,188,766			1,742,493		
<b>Reserve for loan losses</b>									
Pesos.....	(312,730)			(382,325)			(582,887)		
US dollars.....	<u>(127)</u>			<u>(364)</u>			<u>—</u>		
Total.....	(312,857)			(382,689)			(582,887)		
<b>Total non-interest earning assets, net</b>									
Pesos.....	184,056			89,638			146,773		
US dollars.....	<u>832,845</u>			<u>880,422</u>			<u>1,185,169</u>		
Total.....	1,016,901			970,060			1,331,942		
<b>TOTAL ASSETS</b>									
Pesos.....	3,906,434			3,619,142			3,547,022		
US dollars.....	<u>3,851,741</u>			<u>4,327,754</u>			<u>4,185,524</u>		
Total.....	<u>7,758,175</u>			<u>7,946,896</u>			<u>7,732,546</u>		

**For the Year Ended December 31,**

	2005			2004			2003		
	Average Balance	Financial Income	Average Nominal Rate (%)	Average Balance	Financial Income	Average Nominal Rate (%)	Average Balance	Financial Income	Average Nominal Rate (%)
(in thousands of Pesos, except for percentages)									
<b>LIABILITIES</b>									
<b>Interest Bearing Liabilities</b>									
<b>Savings accounts</b>									
Pesos.....	98,129	3,044	3.10%	54,366	1,405	2.58%	24,243	384	1.58%
US dollars.....	12,062	11	0.09%	1,406	1	0.07	170	2	1.18%
Total.....	110,191	3,055	2.77%	55,772	1,406	2.52%	24,413	386	1.58%
<b>Checking accounts</b>									
Pesos.....	19,931	361	1.81%	7,494	169	2.26%	7,376	90	1.22%
US dollars.....	—	—	—	—	—	—	—	—	—
Total.....	19,931	361	1.81%	7,494	169	2.26%	7,376	90	1.22%
<b>Time deposits</b>									
Pesos.....	223,218	13,049	5.85%	80,969	2,790	3.45%	52,272	2,507	4.80%
US dollars.....	22,539	323	1.43%	2,364	22	0.93	—	—	—
Total.....	245,757	13,372	5.44%	83,333	2,812	3.37%	52,272	2,507	4.80%
<b>Other banks and international entities</b>									
Pesos.....	17,371	652	3.75%	94,959	5,169	5.44%	241,063	10,838	4.50%
US dollars.....	459,016	31,690	6.90%	393,934	26,165	6.64	649,584	35,549	5.47%
Total.....	476,387	32,342	6.79%	488,893	31,334	6.41%	890,647	46,387	5.21%
<b>Bonds</b>									
Pesos.....	—	—	—	—	—	—	—	—	—
US dollars.....	2,458,293	112,179	4.56%	2,697,976	80,784	2.99%	2,741,639	104,656	3.82%
Total.....	2,458,293	112,179	4.56%	2,697,976	80,784	2.99%	2,741,639	104,656	3.82%
<b>Argentine Central Bank</b>									
Pesos.....	1,727,834	245,614	14.22%	2,101,569	158,379	7.54%	2,004,670	118,888	5.93%
US dollars.....	—	—	—	—	—	—	—	—	—
Total.....	1,727,834	245,614	14.22%	2,101,569	158,379	7.54%	2,004,670	118,888	5.93%
<b>Other liabilities</b>									
Pesos.....	3,359	—	—	2,160	39	1.81%	—	—	—
US dollars.....	—	—	—	—	—	—	—	—	—
Total.....	3,359	—	—	2,160	39	1.81%	—	—	—
<b>Non-assignment</b>									
Pesos.....	—	—	—	—	—	—	—	—	—
US dollars.....	—	35,566	—	—	—	—	—	362,306	—
Total.....	—	35,566	—	—	—	—	—	362,306	—
<b>Total interest bearing liabilities</b>									
Pesos.....	2,089,842	262,720	12.57%	2,341,517	167,951	7.17%	2,329,624	132,707	5.70%
US dollars.....	2,951,910	179,769	6.09%	3,095,680	106,972	3.46	3,391,393	502,513	14.82%
Total.....	5,041,752	442,489	8.78%	5,437,197	274,923	5.06%	5,721,017	635,220	11.10%
<b>Non-interest Bearing Liabilities</b>									
<b>Checking accounts</b>									
Pesos.....	24,777	—	—	26,233	—	—	33,924	—	—
US dollars.....	108	—	—	34	—	—	1	—	—
Total.....	24,885	—	—	26,267	—	—	33,925	—	—
<b>Other liabilities</b>									
Pesos.....	503,903	—	—	438,245	—	—	415,081	—	—
US dollars.....	19,205	—	—	100,128	—	—	377,417	—	—
Total.....	523,108	—	—	538,373	—	—	792,498	—	—
<b>Shareholders' equity</b>									
Pesos.....	2,168,430	—	—	1,945,059	—	—	1,185,106	—	—
US dollars.....	—	—	—	—	—	—	—	—	—
Total.....	2,168,430	—	—	1,945,059	—	—	1,185,106	—	—
<b>Total non-interest bearing liabilities and shareholders' equity</b>									
Pesos.....	2,697,110	—	—	2,409,537	—	—	1,634,111	—	—
US dollars.....	19,313	—	—	100,162	—	—	377,418	—	—
Total.....	2,716,423	—	—	2,509,699	—	—	2,011,529	—	—
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>									
Pesos.....	4,786,952	—	—	4,751,054	—	—	3,963,735	—	—
US dollars.....	2,971,223	—	—	3,195,842	—	—	3,768,811	—	—

For the Year Ended December 31,								
2005			2004			2003		
Average Balance	Financial Income	Average Nominal Rate (%)	Average Balance	Financial Income	Average Nominal Rate (%)	Average Balance	Financial Income	Average Nominal Rate (%)

(in thousands of Pesos, except for percentages)

Total..... 7,758,175 7,946,896 7,732,546

(1) Includes realized gains and losses and unrealized gains and losses attributable to the marking-to-market of our portfolio of government and corporate securities which are designated as held for trading purposes under Central Bank regulations.

## Changes in Net Interest Earned Volume and Rate Analysis

The following table allocates, for the periods presented, changes in our financial income and interest expense on deposits and other liabilities from financial transactions between changes in the average volume of interest-earning assets and interest-bearing liabilities. Volume and interest rate variances were calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. The net change attributable to changes in both volume and interest rate were allocated proportionately between volume and rate. Given our operations in two currencies, this analysis is presented by type of currency for each asset and liability class shown.

	For the Year Ended December 31,			For the Year Ended December 31,		
	2005/2004			2004/2003		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(in thousands of Pesos)			(in thousands of Pesos)		
<b>Interest Earning Assets</b>						
<b>Cash and due from banks</b>						
Pesos .....	116	1,015	1,131	(52)	(57)	(109)
US dollars .....	(2,797)	21,922	19,125	(73,734)	69,282	(4,452)
Total .....	(2,681)	22,937	20,256	(73,786)	69,225	(4,561)
<b>Government securities (1)</b>						
Pesos .....	42,311	6,047	48,358	51,241	—	51,241
US dollars .....	1,502	19,964	21,466	15,163	—	15,163
Total .....	43,813	26,011	69,824	66,404	—	66,404
<b>Compensatory Bonds</b>						
Pesos .....	—	—	—	—	—	—
US dollars .....	(4,434)	19,849	15,415	(5)	4,117	4,112
Total .....	(4,434)	19,849	15,415	(5)	4,117	4,112
<b>Guaranteed Loans</b>						
Pesos .....	(5,627)	61,286	55,659	7,273	2,243	9,516
US dollars .....	—	—	—	—	—	—
Total .....	(5,627)	61,286	55,659	7,273	2,243	9,516
<b>Pre-1991 loans –individual</b>						
Pesos .....	(10,146)	3,030	(7,116)	(12,134)	(4,219)	(16,353)
US dollars .....	—	—	—	—	—	—
Total .....	(10,146)	3,030	(7,116)	(12,134)	(4,219)	(16,353)
<b>Pre-1991 loans -construction project</b>						
Pesos .....	—	—	—	(319)	—	(319)
US dollars .....	—	—	—	—	—	—
Total .....	—	—	—	(319)	—	(319)
<b>Post-1991 loans – individual</b>						
Pesos .....	(26,767)	(50,773)	(77,540)	(19,787)	(11,515)	(31,302)
US dollars .....	(51)	(2)	(53)	19	(9)	10
Total .....	(26,818)	(50,775)	(77,593)	(19,768)	(11,524)	(31,292)
<b>Post-1991 loans -construction project</b>						
Pesos .....	(54)	131	77	(11,103)	6,946	(4,157)
US dollars .....	—	—	—	—	—	—
Total .....	(54)	131	77	(11,103)	6,946	(4,157)
<b>Other loans</b>						
Pesos .....	16,975	16,190	33,165	(599)	(2,230)	(2,829)
US dollars .....	(862)	(128)	(990)	(709)	2,870	2,161
Total .....	16,113	16,062	32,175	(1,308)	640	(668)
<b>Interbank loans</b>						
Pesos .....	482	259	741	705	—	705
US dollars .....	17	—	17	—	—	—

	For the Year Ended December 31, 2005/2004			For the Year Ended December 31, 2004/2003		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(in thousands of Pesos)			(in thousands of Pesos)		
Total .....	499	259	758	705	—	705
<b>Collateralized mortgage obligations</b>						
Pesos .....	23,248	(53,985)	(30,737)	22,154	(6,221)	15,933
US dollars .....	—	—	—	—	—	—
Total .....	23,248	(53,985)	(30,737)	22,154	(6,221)	15,933
<b>Other assets</b>						
Pesos .....	40,284	10,908	51,192	1,142	21,141	22,283
US dollars .....	—	—	—	—	—	—
Total .....	40,284	10,908	51,192	1,142	21,141	22,283
<b>Non-assignment</b>						
Pesos .....	(37,320)	—	(37,320)	(50,004)	—	(50,004)
US dollars .....	(77,784)	—	(77,784)	(303,042)	—	(303,042)
Total .....	(115,104)	—	(115,104)	(353,046)	—	(353,046)
<b>Total interest earning assets</b>						
Pesos .....	43,502	(5,892)	37,610	(11,483)	6,088	(5,395)
US dollars .....	(84,409)	61,605	(22,804)	(362,308)	76,260	(286,048)
Total .....	(40,907)	55,713	14,806	(373,791)	82,348	(291,443)
<b>Interest Bearing Liabilities</b>						
<b>Savings accounts</b>						
Pesos .....	1,312	327	1,639	677	344	1,021
US dollars .....	10	—	10	(1)	—	(1)
Total .....	1,322	327	1,649	676	344	1,020
<b>Checking accounts</b>						
Pesos .....	218	(26)	192	1	78	79
US dollars .....	—	—	—	—	—	—
Total .....	218	(26)	192	1	78	79
<b>Time deposits</b>						
Pesos .....	7,346	2,913	10,259	581	(298)	283
US dollars .....	283	18	301	22	—	22
Total .....	7,629	2,931	10,560	603	(298)	305
<b>Argentine Central Bank</b>						
Pesos .....	(21,899)	109,134	87,235	5,982	33,509	39,491
US dollars .....	—	—	—	—	—	—
Total .....	(21,899)	109,134	87,235	5,982	33,509	39,491
<b>Other banks and international entities</b>						
Pesos .....	(3,273)	(1,244)	(4,517)	(8,691)	3,022	(5,669)
US dollars .....	4,460	1,065	5,525	(20,532)	11,148	(9,384)
Total .....	1,187	(179)	1,008	(29,223)	14,170	(15,053)
<b>Bonds</b>						
Pesos .....	—	—	—	—	—	—
US dollars .....	(6,409)	37,804	31,395	(1,642)	(22,230)	(23,872)
Total .....	(6,409)	37,804	31,395	(1,642)	(22,230)	(23,872)
<b>Other Liabilities</b>						
Pesos .....	(39)	—	(39)	39	—	39
US dollars .....	—	—	—	—	—	—
Total .....	(39)	—	(39)	39	—	39
<b>Non-assignment</b>						
Pesos .....	—	—	—	—	—	—
US dollars .....	35,566	—	35,566	(362,306)	—	(362,306)
Total .....	35,566	—	35,566	(362,306)	—	(362,306)
<b>Total interest bearing liabilities</b>						
Pesos .....	(16,335)	111,104	94,769	(1,411)	36,655	35,244
US dollars .....	33,910	38,887	72,797	(384,459)	(11,082)	(395,541)
<b>Total .....</b>	<b>17,575</b>	<b>149,991</b>	<b>167,566</b>	<b>(385,870)</b>	<b>25,573</b>	<b>(360,297)</b>

- (1) Includes realized gains and losses and unrealized gains and losses attributable to the marking-to-market of our portfolio of government and corporate securities designated as held for trading purposes under Central Bank accounting rules.

### Interest-Earning Assets—Net Interest Margin and Net Interest Spread

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

	For the Year Ended December 31,		
	2005	2004	2003
	(in thousands of Pesos, except for percentages)		
<b>Total average interest earning assets</b>			
Pesos .....	3,722,378	3,529,504	3,400,249
US dollars .....	<u>3,018,896</u>	<u>3,447,332</u>	<u>3,000,355</u>
Total.....	6,741,274	6,976,836	6,400,604
<b>Net interest earned (1) (2)</b>			
Pesos .....	294,508	351,667	392,306
US dollars .....	<u>(784)</u>	<u>94,817</u>	<u>(14,676)</u>
Total.....	293,724	446,484	377,630
<b>Net interest margin, nominal basis (3)</b>			
Pesos .....	7,91%	9.96%	11.54%
US dollars .....	<u>(0,03)%</u>	<u>2.75</u>	<u>(0,49)</u>
Total.....	4,36%	6.40%	5.90%
<b>Average Nominal Rate Earned</b>			
Pesos .....	14,97%	14.72%	15.44%
US dollars .....	<u>5,93%</u>	<u>5.85</u>	<u>16.26</u>
Total.....	10,92%	10.34%	15.82%
<b>Average Nominal Rate Paid</b>			
Pesos .....	12,57%	7.17%	5.70%
US dollars .....	<u>6,09%</u>	<u>3.46</u>	<u>14.82</u>
Total.....	8,78%	5.06%	11.10%
<b>Net Interest Spread, nominal basis</b>			
Pesos .....	2,40%	7.55%	9.74%
US dollars .....	<u>(0,16)%</u>	<u>2.39</u>	<u>1.44</u>
Total.....	2,14%	5.28%	4.72%

- (1) Net interest earned is defined as interest earned less interest paid. Includes realized and unrealized gains and losses attributable to the marking-to-market of our portfolio of government and corporate securities designated as held for trading and for investment purposes under Central Bank regulations.

- (2) Net interest margin is defined as net interest earned divided by average interest-earning assets.

- (3) Net interest spread, nominal basis, is defined as the difference between the average nominal rate earned on interest-earning assets less the average nominal rate paid on interest-bearing liabilities.

### Return on Equity and Assets

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

	For the Year Ended December 31,		
	2005	2004	2003
	(in thousands of Pesos, except for percentages)		
Net income.....	253,307	279,143	254,394
Average total assets .....	7,758,175	7,946,896	7,732,546
Average shareholders' equity .....	2,168,430	1,945,059	1,185,106
Shareholders' equity at the end of the period.....	2,217,115	1,959,160	1,680,017

	<b>For the Year Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	(in thousands of Pesos, except for percentages)		
Net income as a percentage of:			
Average total assets .....	3,27%	3.51%	3.29%
Average shareholders' equity .....	11,68%	14.35%	21.47%
Average shareholders' equity as a percentage of average total assets.....	27,95%	24.48%	15.33%
Shareholders' equity at the end of the period as a percentage of average total assets.....	28.58%	24.65%	21.73%

## Investment Securities

### *General*

Our investment portfolio consists of: (1) bills and bonds issued by the Argentine government and the Central Bank, (2) certain mortgage-backed securities issued in connection with our securitization program and (3) corporate securities. In addition, Central Bank accounting rules require the carrying of collateral received under reverse repurchase agreements as investments. Quoted government and corporate securities are carried at their closing market quotation less estimated selling costs. Holdings in investment accounts are carried at face value plus interest accrued on the current coupon up to December 31, 2005, except BODEN 2012 that were received as prepayment of mortgage loans, which are carried at Ps.1.40 plus CER. Unquoted corporate securities are carried at the lower of cost or net realizable value plus any applicable contractual adjustments for movements in price indices, or at their technical values, which are government-published schedules of value that increase over the term of the security. Unquoted corporate equity securities are carried at acquisition cost. The mortgage-backed securities, represented by the Class A and Class B bonds, are carried at face value and the certificates of participation are recorded on the basis of our equity in the securitization trusts. See note 10 to our audited financial statements.

The following tables detail our investment portfolio by type and currency (of which disclosure is not in accordance with Central Bank rules, Argentine GAAP and US GAAP) as of the dates presented. You can find a reconciliation of this table with our investment portfolio according to Central Bank accounting rules below this table. See "Management's Discussion of Financial Condition and Results of Operations".

The following table presents our investment portfolio for the periods indicated in nominal terms:

	<b>For the Year Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	(in thousands of Pesos, except for percentages)		
<b>AVAILABLE FOR SALE</b>			
<b>I. Government and Corporate Securities</b>			
<b>In Pesos</b>			
<b>Quoted:</b>			
Argentine government Bonds .....	189,246	115,101	24,341
Argentine Central Bank Bills.....	50,220	154,286	198,555
Corporate Debt Securities .....	5,575	5,660	7,708
Corporate Equity Securities .....	274	24,724	—
	<u>245,315</u>	<u>299,771</u>	<u>230,604</u>
<b>Unquoted:</b>			
Argentine government Bonds .....	239,504	200,252	200,627
National and Provincial Government Bonds.....	—	—	—
Argentine Central Bank Bills.....	—	—	—

	<b>For the Year Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	(in thousands of Pesos, except for percentages)		
<b>Total Government Securities in Pesos.....</b>	<u>484,819</u>	<u>500,023</u>	<u>431,231</u>
<b>In US Dollars</b>			
<b>Quoted:</b>			
Argentine government Bonds.....	—	2,905	13,083
Corporate Equity Securities.....	—	—	—
Corporate Debt Securities.....	<u>25,508</u>	<u>18,993</u>	<u>716</u>
	<u>25,508</u>	<u>21,898</u>	<u>13,799</u>
<b>Unquoted:</b>			
Argentine Central Bank Bills.....	—	—	—
National Government Bonds.....	—	<u>34,452</u>	<u>33,979</u>
Total Government Securities in US Dollars .....	<u>25,508</u>	<u>56,350</u>	<u>47,778</u>
Total Government Securities .....	<u>510,327</u>	<u>556,373</u>	<u>479,009</u>
Total Available for Sale Securities .....	<u>510,327</u>	<u>556,373</u>	<u>479,009</u>



**For the Year Ended December 31,**

	2005	2004	2003
--	------	------	------

(in thousands of Pesos, except for percentages)

HELD FOR INVESTMENT

**I. Government Securities**

**In Pesos**

**Quoted:**

Argentine government Bonds .....	—	—	—
----------------------------------	---	---	---

**Total Government Securities in Pesos**

	—	—	—
--	---	---	---

**In US Dollars(1)**

**Quoted:**

Argentine government Bonds .....	1,709,226	298,751	942,605
----------------------------------	-----------	---------	---------

<b>Total quoted</b>	<b>1,709,226</b>	<b>298,751</b>	<b>942,605</b>
---------------------	------------------	----------------	----------------

**Unquoted:**

Coverage Bonds .....	637,031	2,689,738	2,636,883
----------------------	---------	-----------	-----------

Total Government Securities in US Dollars .....	637,031	2,689,738	2,636,883
---	---------	-----------	-----------

Total Government Securities .....	2,346,257	2,988,489	3,579,488
-----------------------------------	-----------	-----------	-----------

Total Held for Investment Securities .....	2,346,257	2,988,489	3,579,488
--	-----------	-----------	-----------

TRADING

**I. Mortgage-Backed Securities**

**In Pesos:**

Class A1 Senior Bonds .....	—	—	—
-----------------------------	---	---	---

Class A2 Senior Bonds .....	—	—	—
-----------------------------	---	---	---

Class B Subordinated Bonds.....	118,627	99,411	66,118
---------------------------------	---------	--------	--------

Certificates of participation.....	126,670	112,973	75,629
------------------------------------	---------	---------	--------

<b>Total Mortgage-Backed Securities in Pesos.....</b>	<b>245,297</b>	<b>212,384</b>	<b>141,747</b>
---	----------------	----------------	----------------

<b>Total Trading Securities.....</b>	<b>245,297</b>	<b>212,384</b>	<b>141,747</b>
--------------------------------------	----------------	----------------	----------------

OTHER

**Corporate Shares**

**In Pesos**

**Unquoted:**

Investments in Equities.....	5,949	8,304	2,775
------------------------------	-------	-------	-------

<b>Total Corporate and other Investments.....</b>	<b>5,949</b>	<b>8,304</b>	<b>2,775</b>
---	--------------	--------------	--------------

<b>Total investment portfolio.....</b>	<b>3,107,830</b>	<b>3,765,550</b>	<b>4,203,019</b>
--	------------------	------------------	------------------

(1) Amounts not marked to market under Central Bank accounting rules.

## Reconciliation with Balance Sheet According to Central Bank accounting rules

A reconciliation of the amounts classified as investments in the following table and amounts classified as investments on our balance sheets in accordance with Central Bank accounting rules, which only recognizes government securities as investments, is as follows:

	For the Year Ended December 31,		
	2005	2004	2003
	(in thousands of Pesos, except for percentages)		
Investment portfolio as presented above.....	3,107,830	3,765,550	4,203,019
Coverage bonds .....	(637,031)	(2,689,738)	(2,636,883)
Corporate debt securities .....	—	—	—
Investments in equities.....	(5,949)	(8,304)	(2,775)
Total mortgage-backed securities .....	<u>(245,297)</u>	<u>(212,384)</u>	<u>(141,747)</u>
Total government securities under Central Bank accounting rules .....	2,219,553	855,124	1,421,614

## Maturity Analysis

The following table analyzes the remaining maturities and weighted average yields, where applicable, of our investment portfolio at December 31, 2005. No maturity information was presented for investment collateral received under reverse repurchase agreements with the Central Bank or for mortgage-backed securities.

	Maturity							
	December 31, 2005		Within one year		After 1 year but within 5 years		After 5 years but within 10 years	
	Book Value	Yield	Book Value	Yield	Book Value	Yield	Book Value	Yield
(in thousands of pesos, except for percentages)								
<b>AVAILABLE FOR SALE</b>								
<b>I. Government and corporate securities</b>								
<i>In pesos:</i>								
<b>Quoted:</b>								
Argentine government Bonds .....	189,246	2.00%	—		187,085	2.00%	2,161	2.32%
Argentine National Treasury Bills.....	—	—						
Argentine Central Bank Bills.....	50,220	5.23%	23,020	10.26%	27,200	0.97%		
Corporate Debt Securities.....	5,575	8.81%	5,575	8.81%				
Corporate equity securities .....	274	3.13%	274	3.13%	—	—	—	—
<b>Unquoted:</b>								
Argentine government Bonds .....	239,504	10.87%	212,964	11.50%			26,540	5.83%
Total government securities in pesos ....	484,819	6.80%	241,833	11.31%	214,285	1.87%	28,701	5.57%
<i>In US dollars:</i>								
<b>Quoted:</b>								
Argentine government Bonds .....								
Corporate debt securities .....	25,508	13.32	25,508	13.32%				
<b>Unquoted:</b>								
Argentine government Bonds .....								
Total government securities in US dollars .....	25,508	13.32%	25,508	13.32%	—			
Total available for sale securities .....	510,327	6.81%	Ps. 267,341	11.50%	Ps.214,285	1.87%	28,701	5.57%
<b>HELD FOR INVESTMENT</b>								
<b>I. Government securities</b>								
<i>In US dollars(1)</i>								
<b>Quoted:</b>								
Argentine government Bonds .....	1,709,226	2.00%	—				1,709,226	2.00%
<b>Unquoted</b>								
Coverage Bonds.....	637,031	2.00%					637,031	2.00%
Total Government Securities in US dollars.....	2,346,257	2.00%					2,346,257	2.00%
Total Government Securities .....	2,346,257	2.00%					2,346,257	2.00%
Total Held for Investment Securities.....	2,346,257	2.00%					2,346,257	2.00%
<b>TRADING</b>								
<b>I. Mortgage-backed securities</b>								
<i>In pesos:</i>								
Class B Subordinated bonds .....	118,627	9.62%						

	Maturity							
	December 31, 2005		Within one year		After 1 year but within 5 years		After 5 years but within 10 years	
	Book Value	Yield	Book Value	Yield	Book Value	Yield	Book Value	Yield
	(in thousands of pesos, except for percentages)							
Certificates of participation.....	126,670							
Total mortgage-backed securities in pesos .....	245,297	4.65%						
Total Mortgage Backed Securities.....	245,297	4.65%						

#### OTHER

##### Corporate shares

##### *In pesos:*

##### Unquoted:

Investments in equities.....	5,949	—
Total corporate shares and Other Investments .....	5,949	
Total investment portfolio .....	Ps.3,107,830	—

(1) Amounts not marked to market under Central Bank accounting rules.

## Loan Portfolio

Under the terms of Law 25,561, Decree 214 and related rules and amendments, loans in US dollars or any other foreign currency granted by the Argentine financial system prior to the date these rules were adopted were converted into pesos according to the following guidelines: (i) loans to the non-financial private sector, at the rate of Ps.1.00 per US dollar or its equivalent in any other foreign currency, (ii) to the non-financial public sector, at the rate of Ps.1.40 per US dollar or its equivalent in any other foreign currency, and (iii) to the financial sector, at the rate of Ps.1.40 per US dollar or its equivalent in any other foreign currency. Effective February 3, 2002, those measures contemplated the application of CER, which tends to reflect the fluctuations in the consumer price index, to the loans granted to the non-financial private sector and to the non-financial public sector and a reduced interest rate, depending on the type of transaction.

Decree 762/02 amended the regulations mentioned in the preceding paragraph excluding from the application of CER those loans granted to individuals by financial institutions, as follows: (i) secured by mortgages on the only family dwelling of debtors, originally issued in US dollars up to Ps.250,000, (ii) consumer loans originally issued for up to Ps.12,000 or the equivalent in any other foreign currency, whether secured by a mortgage or not, and (iii) pledge consumer loans originally issued for up to Ps.30,000, or the equivalent in any other currency. Those loans were adjusted as from October 1, 2002 by applying the CVS, as published by the INDEC.

Decree 762/02 was subsequently amended by law 25,796, which requires that the CER index described in the preceding paragraph that was applied to loans denominated in dollars or another currency other than pesos, be re-adjusted to take account of changes in the CVS as reported by the INDEC. Such re-adjustment was required to be made in the period from October 1, 2003 through March 31, 2004. Effective as of April 1, 2004, no further adjustments could be made in respect of any index.

In the following discussion, “pre-1991 loans” refers to individual and construction project mortgage loans extended through 1993 and construction loans extended subsequent thereto pursuant to commitments existing prior to such time, and individual loans extended for the purchase of housing units in such construction projects, “post-1991 loans” refers to individual and construction loans granted or acquired after 1993 (other than those granted pursuant to commitments existing prior to such time).

Our portfolio consists of the following types of loans:

#### ***Pre-1991 loans—Individual Mortgage Loans***

Peso-denominated mortgage loans to individuals extended through 1991, or subsequent thereto pursuant to commitments existing prior to such time. The loans are collateralized by mortgages on the underlying residences.

### ***Pre-1991 loans—Construction Project Loans***

Peso-denominated construction loans made to intermediate entities, such as cooperatives, trade unions and other governmental agencies, to finance the construction of housing units for the middle-income sector and extended through 1991, or subsequent thereto pursuant to construction commitments existing prior to such time. The loans are collateralized by a mortgage on the relevant construction project.

### ***Post-1991 loans—Individual Mortgage Loans***

Includes loans granted or acquired after 1991 (other than those granted pursuant to commitments existing prior to such time), originated through the Bank Network, our branch network and other entities.

*Acceso Inmediato.* Loans originated in both US dollars and Argentine pesos. With respect to loans originated under our new rules and conditions for Bank Network participation, we used to require such loans to comply with underwriting, documentation and pricing guidelines determined by us. The original maturities of these loans ranged from three to 20 years for fixed-rate and variable-rate dollar-denominated loans and three to 15 years for fixed-rate peso-denominated loans.

*Holders of TIAVI.* US dollar-denominated mortgage loans made to holders of TIAVI bonds issued by us. All such loans were made through the Bank Network. In 1993, we issued three series of TIAVI bonds at variable interest rates at LIBOR plus 5.0% to 6.25%. In 1996, we granted borrowers the right to elect, when applying for a mortgage loan, between the previously described variable rate and a fixed rate, determined by us, originally at 12.0% and reduced in September 1996 to 11.0%. Since November 1997, no new loans were granted under this credit line. We limited recourse against the originating member of the Bank Network on these mortgage loans. The original maturities of these loans range from 8 to 15 years.

*Arrangements with Selected Developers.* We also originated individual mortgage loans through arrangements with selected private residential property developers and public entities. Pursuant to these arrangements, we committed to provide individual mortgage loans to purchasers of completed units, irrespective of whether we finance the construction. These loans are subject to our usual underwriting criteria for *Acceso Inmediato* loans. Although buyers are not obligated to apply for an individual mortgage loan from us, most buyers used to seek financing from us.

*Purchase of Individual Mortgage Loans.* In March 1995, we entered into agreements with the Argentine army, navy and air force for the purchase of certain individual mortgage loans granted and administered by them. Under these arrangements, we purchased peso-denominated mortgage loans from the armed forces housing institutes at a discount rate which varies from 10% to 16% over the present value of such loans, less 2.5% of the purchase price as additional security. In addition, under new rules and regulations for Bank Network participation, we may have been required to purchase *Acceso Inmediato* loans held by banks in the Bank Network, which benefit from guarantees from the originating bank, within 12 months from the date of origination.

*Other.* Other credit lines consist of:

- mortgage loans assumed by us made under the *Acceso Inmediato* credit line by members of the Bank Network suspended or liquidated by the Central Bank, where we no longer have any recourse against the originating bank,
- certain loans made to war veterans that were originated by Banco Nación where we have full recourse against the Banco Nación,
- short-term US dollar-denominated mortgage loans extended by members of the Bank Network prior to 1994 with original maturities ranging from one to five years at a fixed rate of 13.5% for home purchases, constructions, additions, renovations and refinancing with full recourse against the originating members of the Bank Network, and
- a reduced documentation program (*Crédito Confianza*) which waives the presentation of certain documentation relating to the borrower's income.

### ***Post-1991 loans—Construction Project Loans***

Includes loans to selected private developers and certain public entities, including the IPVs and Small Municipalities. Loans to private developers are generally structured through a trust and, in limited cases, jointly with members of the Bank Network.

*Private Developers.* In 1995, we developed an innovative financing structure which limits our risk to that of the project and excludes the credit risk of the borrower and enables us to take control of the project in the event of non-performance. In this structure, the land on which a project is to be constructed is conveyed in trust to us. We assume the responsibility for financing construction work and are subject to project completion risk. We do not, however, assume responsibility for supervising or coordinating the construction work.

To qualify for a construction loan, private developers had to meet certain financial and business requirements and provide information relating to the members of their board of directors and senior management. In addition, prior to October 26, 1998, all construction projects proposed by private developers had to be rated by at least one independent rating agency approved by the CNV in accordance with guidelines prepared by us which relate to the commercial, economic and financial feasibility of the projects. Since that date we have discontinued this practice, opting instead to have all necessary reviews and analyses conducted internally by our personnel.

*IPVs.* We used to provide construction project financing to certain provinces of Argentina that have entered into servicing agreements with us for the servicing of certain existing peso-denominated home loans granted through various IPVs. See “—Mortgage Servicing.” The maximum amount of such construction project loans extended to any province may not exceed three times the estimated annual cash flow of the collections of peso-denominated loans serviced by us for such province. These loan agreements give us the right to set off amounts collected by us as servicer of the peso-denominated home loans granted by the relevant IPV against amounts owed under the construction loan. These agreements also provide us with the opportunity to grant mortgage loans to the ultimate purchasers of homes constructed under this program. After completion of construction, we deduct an amount (currently 5.0%) from each individual residential mortgage loan originated by us in connection with the financed project as additional security.

*Small Municipalities.* We used to make loans to eligible Small Municipalities for the construction of homes, currently at the rate of no more than US\$15,000 per housing unit, generally for a maximum term of 24 months. All those loans were secured by a mortgage on the property and by the revenues from taxes collected by the relevant province and distributed to the municipality to which the financing is extended. After completion of the construction period, we deduct an amount, currently 5.0%, from each individual residential mortgage loan originated by us in connection with the financed project as additional security. Pursuant to the Privatization law, we are required until August 2007 to make available to Small Municipalities a credit line in an amount equal to 10.0% of all new loans granted for construction within each year.

*Other.* US dollar-denominated construction loans were made under a special credit line in participation with a member of the Bank Network. The loans were made with two-year maturities. We have full recourse against the originating member of the Bank Network with respect to these loans. We formerly provided US dollar financing on different terms through the Bank Network to building enterprises for the construction of housing units. The originating member of the Bank Network retained the repayment risk on the loans. The loans were made with two-year maturities. This credit line was discontinued in 1995.

### **Loan Portfolio Composition By Loan Type**

The following table presents in *nominal* terms our loan portfolio by type of loan.

## Loan Portfolio Composition By Loan Type

	For the Year Ended December 31,		
	2005	2004	2003
	(in thousands of pesos)		
<b>Mortgage Loans:</b>			
Pre-1991 loans—individual mortgage .....	811,010	956,022	1,076,199
Pre-1991 loans—construction project.....	935	1,009	1,018
Total pre-1991 loans .....	<u>811,945</u>	<u>957,031</u>	<u>1,077,217</u>
Post-1991 loans—individual mortgage:			
<i>Acceso inmediato</i>			
Bank Network .....	54,858	69,901	83,074
Bank's Branch Network .....	304,822	248,901	303,574
Arrangements with selected developers.....	268,501	300,662	307,510
Purchase of individual mortgage loans .....	47,109	52,824	56,674
Subtotal.....	<u>675,290</u>	<u>672,288</u>	<u>750,832</u>
Post-1991 loans—construction project:			
Private developers .....	870	101	8,605
IPVs.....	—	—	680
Small municipalities .....	1,313	3,042	3,487
Other.....	—	—	509
Subtotal.....	<u>2,183</u>	<u>3,143</u>	<u>13,281</u>
Total post-1991 loans .....	<u>677,473</u>	<u>675,431</u>	764,113
Total mortgage loans .....	<u>1,489,418</u>	<u>1,632,462</u>	<u>1,841,330</u>
Guaranteed government loans.....	88,852	452,973	452,560
Other loans.....	706,989	478,661	325,513
Total loans .....	<u>2,285,259</u>	<u>2,564,096</u>	<u>2,619,403</u>
Accrued interest receivable.....	94,476	291,698	271,337
Reserve for loan losses .....	(172,743)	(287,527)	(389,678)
Total loan portfolio.....	<u>2,206,992</u>	<u>2,568,267</u>	<u>2,501,062</u>
Loans in Trust Pending Securitization .....	112,127	255,622	308,187
Accrued interest Receivable .....	12,217	14,393	19,668
Other .....	91,861	82,133	47,012
<b>Reserve for loan losses.....</b>	<u>(33,175)</u>	<u>(47,305)</u>	<u>(30,129)</u>
<b>Total loan.....</b>	<u>2,390,022</u>	<u>2,873,110</u>	<u>2,845,800</u>

### Guarantees and Collateral

During 1999, we foreclosed on collateral through judicial proceedings on mortgages relating to 227 pre-1991 and 17 post-1991 loans to individuals. The resulting auction sales yielded average proceeds equal to approximately 46.5% and 38.6% of the outstanding indebtedness on the loans, respectively. During 2000, we foreclosed on collateral through judicial proceedings on mortgages relating to 17 pre-1991 and 32 post-1991 loans to individuals. The resulting auction sales yielded average proceeds equal to approximately 42.4% and 36.8% of the outstanding principal amount of the loans, respectively. During 2001, we foreclosed on collateral through judicial proceedings on mortgages relating to 150 pre-1991 and 74 post-1991 loans to individuals. The resulting auction sales yielded average proceeds equal to approximately 41.7% and 49.0% of the outstanding indebtedness on the loans, respectively.

In February 2002, as a result of the sovereign default announced in December 2001, the Congress enacted Law No. 25,561, which suspended foreclosures on non-performing residential mortgage loans for a period of 180 days. We continue to initiate legal actions against approximately 2,085 debtors who are in non-performing status. In August 2002, Law No. 25,589 (the "Bankruptcy Law") suspended the foreclosure of residential mortgages. As a result of these measures, during 2002 we foreclosed on collateral relating to only 22 pre-1991 and 79 post-1991 loans to individuals, although we have 6,043 judicial rulings in our favor relating to 5,413 pre-1991 loans and 630 post-1991 loans. During 2003 we had anticipated foreclosing on all non-performing loans with respect to which we had judicial sentences in our

favor. However, the Argentine Congress enacted Law 25,737 which suspended foreclosures for a period that expired on September 2, 2003. In order to minimize the potential for significant popular opposition, the Bank and other financial institutions in Argentina agreed not to foreclose on their portfolio of non-performing loans for the foreseeable future. As a result, our ability to recover on our non-performing loans has been, and continues to be, materially impaired. On November 5, 2003, the Congress approved a law implementing a mortgage refinancing mechanism financed by a special fund which is expected to purchase certain delinquent loans and permit debtors to repay their debts at fixed rates in pesos.

During 2004 and 2005 we were able to conclude 709 foreclosures, 252 of which corresponded to pre-1991 loans and 457 to post-1991 loans. The resulting auction sales yielded average proceeds equal to approximately 55.3% of the aggregate outstanding principal amount of the loans.

The following table classifies our loan portfolio by type of guarantee as of the dates indicated.

	<b>For the Year Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	(in thousands of pesos)		
Non-financial government sector(1) .....	211,280	576,949	587,302
With preferred guarantees(2) .....	1,535,659	1,631,126	1,837,553
With other guarantees .....	515,520	276,501	166,243
Without guarantees .....	22,800	79,520	28,305
Total loan portfolio .....	2,285,259	2,564,096	2,619,403
With preferred guarantees(2) .....	112,127	255,622	308,187
Total loans in trust pending securitization.....	112,127	255,622	308,187

(1) In accordance with Central Bank accounting rules, loans to the non-financial government sector are considered as having a preferred guarantee for the purpose of determining loan classifications.

(2) Preferred guarantees include first priority mortgages or pledges, cash, gold or public sector bond collateral, certain collateral held in trust or certain guarantees by the Argentine government.

### Maturity Composition of the Loan Portfolio

The following tables analyze our loan portfolio (before deducting the reserve for loan losses) by type and time remaining to maturity at December 31, 2005.

	<b>Amount as of December 31, 2005</b>	<b>Amount Past due</b>	<b>Maturing within one year</b>	<b>Maturing after 1 year but within 5 years</b>	<b>Maturing after 5 years but within 10 years</b>	<b>Maturing after 10 years but within 15 years</b>	<b>Maturing after 15 years but within 20 years</b>
	(in thousands of Pesos, except for percentages)						
<b>Mortgage Loans</b>							
Pre-1991 loans -							
individual mortgage.....	811,010	3,318	61,036	239,743	242,788	123,313	140,812
Pre-1991 loans -							
construction project .....	<u>935</u>	<u>935</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Pre-1991 Loans.....	<u>811,945</u>	<u>4,253</u>	<u>61,036</u>	<u>239,743</u>	<u>242,788</u>	<u>123,313</u>	<u>140,812</u>
Post-1991 loans -							
individual mortgage							
Acceso inmediato:							
Bank Network -							
limited guarantee.....	54,858	5,654	7,865	25,483	13,082	2,774	—
Branch Network.....	304,822	1,711	24,535	95,338	103,004	78,715	1,519
Arrangements with							
selected developers .....	268,501	1,709	20,849	82,890	91,380	69,581	2,092
Purchase of							
individual							
mortgage loans.....	<u>47,109</u>	<u>1</u>	<u>2,963</u>	<u>12,685</u>	<u>13,839</u>	<u>9,908</u>	<u>7,713</u>
Subtotal .....	<u>675,290</u>	<u>9,075</u>	<u>56,212</u>	<u>216,396</u>	<u>221,305</u>	<u>160,978</u>	<u>11,324</u>
Post-1991 loans -							
construction project							
Private developers.....	870	870	—	—	—	—	—



	Amount as of December 31, 2005	Amount Past due	Maturing within one year	Maturing after 1 year but within 5 years	Maturing after 5 years but within 10 years	Maturing after 10 years but within 15 years	Maturing after 15 years but within 20 years
			(in thousands of Pesos, except for percentages)				
Small municipalities .....	1,313	1,313	—	—	—	—	—
Subtotal .....	2,183	2,183	—	—	—	—	—
Total Post- Restructuring loans .....	677,473	11,258	56,212	216,396	221,305	160,978	11,324
Total Mortgage Loans .....	1,489,418	15,511	117,248	456,139	464,093	284,291	152,136
<b>Other loans</b> .....	795,841	2,065	400,881	191,069	89,906	111,837	83
<b>Accrued interest receivable</b> .....	94,476	2,045	92,431	—	—	—	—
<b>Total loan portfolio</b> .....	<b>2,379,735</b>	<b>19,621</b>	<b>610,560</b>	<b>647,208</b>	<b>553,999</b>	<b>396,128</b>	<b>152,219</b>
<b>Loan Trust pending securitization</b> .....	112,127	13,022	11,344	49,258	31,097	7,306	100
<b>Other</b> .....	91,861	—	8,678	83,183	—	—	—
<b>Accrued interest receivable</b> .....	12,217	—	12,217	—	—	—	—
<b>Total Loan</b> .....	<b>2,595,940</b>	<b>32,643</b>	<b>642,799</b>	<b>779,649</b>	<b>585,096</b>	<b>403,434</b>	<b>152,319</b>
<b>Total %</b> .....	100.00%	1.26%	24.76%	30.03%	22.54%	15.54%	5.87%

### Interest Rate Sensitivity of Outstanding Loans

The following table describes the amount of loans with variable interest rates and fixed interest rates,

	As of December 31,					
	2005		2004		2003	
	Amounts	% of total loans	Amounts	% of total loans	Amounts	% of total loans
	(in thousands of Pesos)					
<b>Variable Rate</b>						
Pesos .....	729,199	30.42%	100,061	3.55%	38,489	1.31%
US dollars .....	—	—	—	—	—	—
<b>Total</b> .....	<b>729,199</b>	<b>30.42%</b>	<b>100,061</b>	<b>3.55%</b>	<b>38,489</b>	<b>1.31%</b>
<b>Fixed Rate</b>						
Pesos .....	1,603,377	66.88%	2,649,895	93.98%	2,842,713	97.10%
US dollars .....	43,211	1.80%	43,194	1.53%	45,259	1.55%
<b>Total</b> .....	<b>1,646,588</b>	<b>68.68%</b>	<b>2,693,089</b>	<b>95.51%</b>	<b>2,887,972</b>	<b>98.65%</b>
<b>Other</b>						
Pesos .....	21,599	0.90%	26,568	0.94%	1,129	0.04%
US dollars .....	—	—	—	—	—	—
<b>Total</b> .....	<b>21,599</b>	<b>0.90%</b>	<b>26,568</b>	<b>0.94%</b>	<b>1,129</b>	<b>0.04%</b>
<b>Total loan portfolio</b> .....	<b>2,397,386</b>	<b>100.00%</b>	<b>2,819,718</b>	<b>100.00%</b>	<b>2,927,590</b>	<b>100.00%</b>

Variable rate loans include certain *Acceso Inmediato* loans and loans to certain provincial governments. Fixed-rate loans include all the other loans originated by us. Other loans include the amount of current, but not yet paid, monthly installments due on the loans.

## Credit Policies

### *Credit Approval Process*

#### *Post-1991 loans—Individual Mortgage*

In 1999 we centralized our credit approval process by placing it under the responsibility of our Risk Management Division. Consequently, all credit risk decisions related to mortgage loans to individuals are made by the Risk Management Division at our head office, while our originating branches focus on commercial and remedial management. This permits us to exercise more control over the implementation of set credit policies and makes our approval process uniform for all distribution channels and all product lines. In addition, it allows us to control at any time the total of our loans disbursed, both in terms of time, quality as well as the diverse lines of products, distributions channels, and pricing mix.

If the amount of the *loan* to be approved were higher than that established in each case for the Risk and Delinquency Area Manager, the approval requires the consent of the Risk and Delinquency Committee.

As a consequence of the economic crisis experienced in Argentina during 2002 and part of 2003, in December 2001 we decided to suspend the origination of mortgage loans. Such suspension was in effect until November 2003 when we announced the re-launch of new mortgage loans for terms between five and ten years.

The current mortgage credit lines offer terms of up to 20 years for fixed and variable interest rates. For fixed credit lines, nominal rates per annum range from 9% for 5-year loans to 9.75% for 20-year loans. In the case of variable interest loans, nominal rates per annum range from 7.50% for 5-year loans to 8.75% for 20-year loans. The benchmark for variable rates is the interest rate for time deposits between Ps.100,000 and Ps.500,000, up to 59 days, reported by the Central Bank. The loan amount cannot exceed 70% of the value of the mortgaged property when the purpose of the loan is the purchase of real property and 50% or 35% in all other cases.

The origination channels of the new mortgage loans are as follows:

- our Branch Network;
- direct marketing;
- own sales force; and
- real estate companies.

Direct marketing will be principally used to reach existing and potential customers, for purposes of cross-selling actions. This strategy is mainly based on the use of technological tools specifically designed to cause processes to be more intelligent, by segmenting the data base in order to improve communications efficiency and attain a better acceptance of our products.

Centralized and branches' sale forces are mainly in charge of generating the sale of our new products to new customers.

We have implemented and continue to actively develop external distribution channels to supplement our own distribution network with third parties capable of generating sales of our products. This is a key strategy to contact customers in a non-traditional way at the points where their transactions are made (for instance, real estate agencies, car dealers, etc.).

#### *Post-1991 Construction Loans*

In line with our decision to suspend the origination of mortgage loans in December 2001, as from such date we suspended origination of construction loans. In the past we evaluated each project based on the project's technical, legal, commercial, and financial characteristics. In addition, prior to October 26, 1998, we required that all projects be financed through our fiduciary trustee credit line and we also required that we receive a commercial and financial analysis of the project from one or two local rating agencies, depending on the size of the project. In October 1998, in order to improve our risk analysis this requirement was discontinued and we hired skilled personnel to conduct the required analysis internally. As a result of such measure, we recorded a reduction in delinquency of projects financed under this method.

All projects were required to comply with certain underwriting criteria (such as pre-sales reservations and minimum net worth injection in the project). For further details on these criteria, see “Business – Mortgage Loans”.

Based on the improvement of the economy and the reactivation experienced by the construction sector, we are considering the possibility of commencing new originations of loans for construction projects.

### ***Personal Loans***

In May 2003 we started to offer personal loans. At a first stage the sales actions were focused on our own client portfolio and later, in 2004, we focused on the whole market. These loans are denominated in pesos, at fixed or variable rate, of up to Ps.20,000 and a maximum term of 48 months. The minimum net income required to access this product is Ps.700 (in the interior of Argentina) and Ps.900 (in the Buenos Aires metropolitan area), and the maximum installment to income ratio is 35% (considering all products held by the client with us).

### ***Pledge Loans***

In September 2004 we started to offer pledge loans for automobiles through a retailer. These loans are denominated in pesos, accrue interest at a fixed rate, are of up to Ps.60,000, for a maximum term of 4 years. The minimum net income required to access this product is Ps.1,200 and the maximum ratio of the installment over the value of the pledged property is 60% for new vehicles and 50% for used vehicles. The maximum installment to income ratio is similar to that of personal loans: 35% (considering all products held by the client with us).

### ***Credit Cards***

In August 2004 we started to offer credit cards, mainly through a pre-embossed campaign targeted to our existing client base. The card brand is VISA and has regional and international coverage, it is annually renewable and has a purchase limit of up to Ps.15,000 and a credit limit of 70% the purchase limit. The minimum income required to access to credit under this product is Ps.700 (in the interior of Argentina) and Ps.900 (in the Buenos Aires metropolitan area), and the maximum installment to income ratio is similar to that of personal loans: 35% (considering all products held by the client with us) and 40% (considering also the impact on the client’s income caused by loans granted by other financial institutions). The purchase limit is established based on the computed income, subject to a maximum of 2 times the net income of the family group.

### ***Individual Loans***

The following table describes the levels of approval for the different kinds of loans:

<b>Level of Approval (1)</b>	<b>Maximum loan amount</b>		
	<b>Unsecured products (2)</b>	<b>Pledge loans</b>	<b>Mortgage loans</b>
Junior/Semi-senior Risk Analyst .....	Ps.10,000	Ps.25,000	Ps.50,000
Senior Risk Analyst/Supervisor.....	Ps.20,000	Ps.50,000	Ps.100,000
Individual Risk Manager .....	Ps.35,000	Ps.65,000	Ps.200,000
Risk and Delinquency Area Manager.....	Ps.55,000	Ps.80,000	Ps.300,000

(1) The signature of any officer may be replaced with the signature of a higher ranking officer.

(2) Includes Checking Accounts, Credit Cards and Personal Loans.

Should the amount of credit to be approved be higher than that established in each case for the Risk and Delinquency Area Manager, approval of the Credit Committee is required.

## ***Corporate Loans***

<b>Level of approval (1)</b>	<b>Credit amount</b>
Credit Committee	Up to Ps.20,000,000
Executive Committee	From Ps.20,000,000 up to Ps.50,000,000
Board of Directors	More than Ps.50,000,000

Approval of a given matter at levels lower than the Board of Directors will require a unanimous decision; otherwise, the matter shall be submitted to the immediately higher level for review.

Notwithstanding, in the case of a loan application whose amount exceeds any of the ranges in the scale, the lower level of approval is empowered to authorize the amount applied for to the extent of its powers, while the balance is subject to potential approval by a higher level.

### ***Delinquency Management***

By mid-1999, we had switched to a more professional delinquency management system basically organized into the following three time periods:

- Early delinquency management;
- Advanced delinquency management; and
- Legal/judicial delinquency management.

This new management allowed for a focused treatment of collections, whereas the old system relied too heavily and focused too much on the efficiency of third-party law firms.

The present focus and success of our delinquency-management puts far more emphasis on the commercial negotiations undertaken by trained telecollectors and specialized work-out officers, with legal proceedings regarding the loans only initiated after various types of commercial negotiations result in the loans being considered uncollectible or difficult to normalize.

#### ***Early delinquency management***

This important task is conducted by the telecollection unit from our call center, which is equipped with technology allowing for the execution of massive outbound calling campaigns. The trained telecollectors manage cases that are up to 60 days delinquent. The early delinquency management includes two stages: the delay verification management by which telecollectors try to detect the occurrence of technical delinquency from 0 to 30 days and the early delinquency management which includes loans that have been delinquent from 31 to 60 days.

Apart from the delinquency management task, they also conduct preventive/proactive work, reminding parties of key dates and checking out loan statuses.

#### ***Advanced delinquency management***

The advanced delinquency unit manages cases that are between 60 days and 180 days delinquent, the determination of which depends on the specific origin of the credit line. Securitized loans managed by this sector that are up to 120 days in arrears are exempted from this rule.

The treatment of these cases is undertaken by a group of specialized work-out officers who are categorized by levels of seniority and assigned accordingly, depending upon the complexity of each case.

The commercial delinquency unit is not only in charge of the mid-range delinquency management, but it also handles and executes campaigns and actions directed at specific segments of non-performing debtors as well as special pre-legal negotiations with clients, which often include a visit to the debtor's home.

This unit is made up of 5 regional supervisors who are in charge of implementing the various delinquency policies countrywide. Additionally, 65 work-out officers and other assistants report to the supervisors.

#### *Legal/judicial-delinquency management*

The legal/judicial unit takes over cases where loans have been declared uncollectable after 180 days (120 days in respect of securitized loans) of negotiations and efforts to reestablish compliance due to debtor unwillingness or insolvency, or where there has been failure to enter into rescheduling or restructuring agreements. The legal/judicial unit organizes, directs and supervises the delinquency management throughout the entire country from our headquarters in Buenos Aires. This legal/judicial unit includes employees in each of our branches who report directly to the division and supervise delinquency management for each branch, and a network of 130 independent law firms that is responsible for out-of-court and in-court collections. These law firms are paid by the delinquent borrowers. This division also includes a network of auctioneers in each jurisdiction, who are in charge of conducting auctions pursuant to our special foreclosure rights under the Privatization law.

#### *AIS Recovery System*

The launching of this system took place on February 4, 2002.

In 2002 we implemented a new software system which we believe has permitted greater automation of calling campaigns, especially with regard to the early delinquency and advanced delinquency units. This technological aggregate allowed us to comply with a more efficient case handling from 2002 to 2004, achieving in the midst of an acute economic recession, very acceptable collection indicators (85.3% of issued mortgage billings in 2002, 89.6% in 2003 and 89.2% during the period from January to December 2004).

#### **Central Bank's Loan Classification System and Reserves for Loan Losses**

Under Central Bank regulations, banks must maintain reserves for loan losses in an amount appropriate to cover the risks underlying each bank's portfolio. Such reserve for loan losses consists of two portions:

- a portion calculated based upon specific characteristics of a bank's consumer portfolio and commercial portfolio, set forth in the Central Bank regulations, which are described below, and
- a portion which may be determined by the management of each entity in its discretion in light of the risks inherent in such entity's portfolio which management may deem not covered by the reserve.

In establishing reserves, our management takes into consideration a number of factors, including:

- the risks associated with loans on which the difference between the cash interest rate payable and the reference rate is capitalized,
- forgiveness pursuant to the privatization law,
- the growth in our loan portfolio,
- the related risk of construction lending,
- the measures adopted by our board of directors during 2000, and
- improvements in the overall performance of our loan portfolio.

Central Bank regulations allow our management broad discretion to determine the amount of the voluntary reserve.

Under the Central Bank's loan classification system and corresponding minimum loan loss reserve requirements based on borrowers' payment performance, which became effective in June 1994, loans are classified pursuant to established criteria which vary depending on whether the loans are "consumer loans" or "commercial loans" for purposes of the Central Bank rules. "Consumer loans" include loans for housing and at the entity's option, loans and guarantees of a commercial nature of up to Ps.500,000 with preferred guarantees. "Commercial loans" include all loans that do not constitute consumer loans. Any loan originated by the Bank Network was guaranteed by the originating bank by up to

100.0% or 20.0% of the amount outstanding on such loan. We have classified all post-1991 loans originated through the Bank Network with a partial guarantee in the same manner as a loan to an individual that has no such guarantee.

The amounts of all loans outstanding to a particular borrower are aggregated to determine whether the consumer or commercial loan classification applies. For purposes of applying the Central Bank’s loan classification system, all borrowers in an “economic group” that is, all corporate and financial entities, both domestic and foreign, controlled by another borrower or subject to common control are considered as one borrower. If a borrower has loans both with and without preferred guarantees, the principal balance of the borrower’s loans without preferred guarantees plus 50.0% of the principal balance of the borrower’s loans with preferred guarantees must be less than Ps.500,000 in order for the loans to qualify as consumer loans for purposes of the Central Bank’s loan classification system.

Under the Central Bank’s loan classification system, each borrower, together with all its outstanding liabilities to us, is classified in one of the six sub-categories described below. The loan classification criteria applied to loans in the consumer portfolio is based mainly on delinquency aging while the principal criterion for classification of loans in the commercial portfolio is the borrower’s ability to pay, which is evaluated in terms of the borrower’s expected future cash flow. Our total exposure to a private sector borrower must be classified in the worst risk classification that corresponds to any loan to such borrower. The following tables set forth the Central Bank’s loan classifications for consumer and commercial loan portfolios.

#### **Consumer Portfolio**

<b>Loan Classification</b>	<b>Description</b>
Normal Performance	Current loans and loans that are up to 30 days past due on principal and/or interest.
Inadequate Performance	Debt payment is occasionally delinquent, with arrears from 31 to 90 days.
Deficient Performance	Debt is in arrears at least 91 days and up to 180 days.
Difficult Collection	Judicial proceedings demanding payment have been initiated against the borrower, or the borrower is delinquent with arrears greater than 180 days and up to one year.
Uncollectible	Loans to insolvent or bankrupt borrowers, or borrowers subject to judicial proceedings, with little or no possibility of collection, or in arrears in excess of one year.
Uncollectible for Technical Reasons	Loans to borrowers who fall within the conditions described below under “—Commercial Portfolio—Uncollectible for Technical Reasons.”

#### **Commercial Portfolio**

<b>Loan Classification</b>	<b>Description</b>
Normal	Borrower can easily service all financial obligations: shows strong cash flow, liquid current financial situation, adequate financial structure, punctual payment record, capable management, timely and precise available information and satisfactory internal controls. Borrower is determined to be in the top 50.0% of an industry that is performing well and has a good outlook.
Subject to special follow-up	<i>Under observation:</i> cash flow analysis indicates that, at the time made, the customer is able to pay all his/her financial commitments. However, there are potential situations that, unless timely controlled or corrected, may affect the customer’s future payment capacity.  <i>Under negotiation or with refinancing agreements:</i> it includes such customers who, upon their impossibility to pay their obligations in the conditions agreed upon, state their intention to refinance their debts within 60 days computed from the date of their default in payment.

<b>Loan Classification</b>	<b>Description</b>
Problematic	Cash flow analysis evidences problems in normal servicing of existing debt, such that if the problems are not solved, they may result in some loss for the Bank.
High Risk of Insolvency	Cash flow analysis demonstrates that full repayment of the borrower's obligations is highly improbable.
Uncollectible	Loans in this category are considered total losses. Although these assets could have a possibility of recovery under certain future circumstances, lack of collectibility is evident as of the date of analysis. Includes loans to insolvent or bankrupt borrowers.
Uncollectible for Technical Reasons	Loans to borrowers indicated by the Central Bank to be more than 180 days in arrears to any liquidated or bankrupt financial entity. Also includes loans to foreign banks and other financial institutions which are not classified as "normal" and which are not subject to the supervision of the Central Bank or other similar authority of the country of origin and which are not classified as "investment grade" by any of the rating agencies admitted to the Central Bank pursuant to Communication "A" 2729.

In applying the Central Bank's classification criteria to commercial loans, we assess the following factors:

- management and operating history of the borrower and the adequacy of its internal control system, present and projected financial condition of the borrower with a review of the borrower's financial statements,
- the borrower's payment history and ability to service debt,
- capability of the borrower's internal information and control systems to provide accurate and timely information with respect to its financial and economic situation,
- the general risk of the sector in which the borrower operates, and
- the borrower's relative position within that sector.

We classify post-1991 loans originated through the Bank Network, which have a partial guarantee granted by the originating bank, in the same manner as a loan to an individual that has no such guarantee. Accordingly, in the case of 20.0% guaranteed loans, the classification is based solely on this criterion, which relates to the originating bank and not the borrower's performance. In any case, if the member of the Bank Network that originated the loan goes bankrupt or is otherwise liquidated, such loan is reclassified as a consumer loan.

A periodic evaluation of the commercial portfolio must be carried out by an evaluation team independent of our commercial lending officers, such as our internal auditors. Alternatively, the evaluation may be carried out by our commercial lending officers, subject to supervision independent from us. The evaluation must be carried out on each borrower with outstanding credit equal to the lesser of US\$1 million or 1.0% of our minimum capital requirement, but in any case for at least all borrowers totaling up to 20% of our loan portfolio.

The frequency of the evaluation of each borrower depends on our exposure to that borrower. The Central Bank requires that the larger the exposure, the more frequent the review. A review is conducted every calendar quarter when credit exposure to that borrower is equal to or in excess of 5.0% of our minimum capital on the last day of the month prior to the review, or every six months when exposure amounts to the lesser of US\$1 million or 1.0% of our minimum capital on the last day of the month prior to review. In any case, at least 50.0% of our commercial portfolio must be reviewed at the end of every six months, and all other borrowers in our commercial portfolio must be reviewed during our fiscal year, such that the entire commercial portfolio is reviewed every fiscal year.

Commercial loans must be reevaluated upon a negative change in objective criteria such as an increase in days past due, a filing for bankruptcy or protection from creditors, or a judicial proceeding initiated against the borrower. In addition, a reevaluation of commercial loans is required if, based on information made available by the Central Bank, any other financial institution holding at least 10.0% of the borrower's total outstanding credit downgrades its classification of loans to that borrower, or if an independent rating agency downgrades its rating of the borrower's bonds.

In addition, only one level of discrepancy is permitted between the classification assigned by us to a borrower and the lowest classification assigned to such borrower by at least two other banks whose combined credit to the borrower represents more than 20.0% of the borrower's total bank debt. Information on each bank's classification of its borrowers is released by the Central Bank to all banks on a monthly basis. If a bank's classification of a borrower differs by greater than one level from the lowest classification given to such borrower by other banks, the higher classifying bank must immediately downgrade its classification of loans to the borrower to the same classification, or within one classification level.

***Minimum Loan Loss Reserve Requirements Based on Borrowers' Payment Performance***

The minimum loan loss reserve required by the Central Bank based on borrowers' payment performance relates to the foregoing loan classifications and is described in the following table, where the percentages are applicable to the borrower's total credit outstanding, including contingencies.

Loan Classification		Minimum Required Loan Loss Reserve (as a percentage of outstanding principal balance)		
		With Self-Liquidating Preferred Guarantees	With other Preferred Guarantees	Without Preferred Guarantees
Commercial	Consumer			
"Normal"				
"Subject to special follow-up -- Under Observation"	"Normal Performance"	1%	1%	1%
"Subject to special follow-up -- Under negotiation or with refinancing agreements"	"Inadequate Performance"	1	3	5
"Problematic"		1	6	12
"High Risk of Insolvency"	"Deficient Performance"	1	12	25
"Uncollectible"	"Difficult Collection"	1	25	50
"Uncollectible for Technical Reasons"	"Uncollectible"	1	50	100
	"Uncollectible for Technical Reasons"	100%	100%	100%

The Central Bank requires banks to cease the accrual of interest or establish reserves equal to 100.0% of the interest accrued on loans to borrowers classified as "problematic," "deficient performance" or under one of the higher risk categories (collectively "non-performing loans"). As of January 1, 1999 we suspended our former policy of accruing interest on non-performing loans to individuals that are more than 90 days in arrears, and as of January 1, 2000, we suspended our former policy of accruing interest in respect of non-performing construction project loans that are more than 90 days in arrears. Under the policy existing prior to such dates, after the related loan was over 90 days in arrears, the accrued or capitalized interest was fully reserved in accordance with Central Bank accounting rules.

For purposes of applying the Central Bank's reserve requirements, we classify our mortgage loans as "consumer" loans and "commercial" loans in accordance with the standards described in "—Central Bank's Loan Classification System and Reserves for Loan Losses" and as performing or non-performing in accordance with the standards described in "—Classification of Loan Portfolio According to Central Bank Criteria." However, we have not always used the same classification methodologies, which has affected the minimum reserves that we are required to maintain.

Pursuant to Central Bank regulations, reserves for loan losses based on borrower payment performance are not required for interbank financial transactions of less than 30 days, or for transactions with the public sector, including



financial institutions that are majority-owned by the Argentine federal, provincial or city governments with governmental guarantees. Such credits are classified as “normal” loans under the Central Bank loan classification system.

### *Classification of Loan Portfolio According to Central Bank Criteria*

Non-performing loans include:

- in the case of consumer loans, those classified under Central Bank regulations as “Deficient Performance,” “Difficult Collection,” “Uncollectible” and “Uncollectible for Technical Reasons,” and
- in the case of commercial loans, those classified under Central Bank regulations as “Problematic,” “High Risk of Insolvency,” “Uncollectible” and “Uncollectible for Technical Reasons.” See “—Central Bank’s Loan Classification System and Reserves for Loan Losses.”

We have not always used the same classification methodologies for classifying our mortgage loans as “consumer” or “commercial” or as “performing” or “non-performing.” As a result, statistics regarding non-performing loans are not necessarily comparable from one period to another. The following describes our recent principal changes in classification methodology:

- Before March 1997, loans to borrowers entering into refinancing agreements were classified (i) in accordance with their then current payment performance, if the loan being refinanced was not delinquent, and (ii) at the lower of the loan’s then current classification and its classification prior to the relevant refinancing, if the loan being refinanced was delinquent.
- From March 1997 to September 1998, we reclassified all loans subject to the 1997 Restructuring as “normal performance.”
- From September 1998 to August 1999, we implemented a new classification methodology pursuant to which (i) approximately 22,500 performing loans (with an aggregate principal balance, in nominal terms, at September 30, 1998 of Ps.334.9 million) were classified based solely on the borrowers’ payment performance since the 1997 Restructuring and (ii) approximately 5,500 loans which were not current in payment of principal and interest (with a principal balance, in nominal terms, at September 30, 1998 of Ps.89.0 million) were classified based on either borrowers’ payment performance prior to the 1997 restructuring or borrowers’ payment performance after the 1997 restructuring, depending on which classification was more conservative and resulted in a higher level of loan loss reserves.
- As of August 1999, we began using substantially the same classification methodology we had used before March 1997.
- As of January 2000, we began classifying post-1991 loans originated through the Bank Network, which have partial guarantees, in the same manner as we classify a loan to an individual without the guarantee. See “—Central Bank’s Loan Classification System and Reserves for Loan Losses.”
- As of June 2000, we began classifying all previously delinquent restructured loans to individuals as non-performing unless the obligor shall not be more than 30 days past due at the end of the sixth month after the restructuring.

This latest change in classification methodology, adopted as of June 2000, generally consists of the following:

- Maintaining the classification of all loans subject to (i) application of the provision of article 13 of Law 24,143 and/or (ii) restructuring, whether by means of payment agreement, capitalization of default or subsidy, until six months after regularization.
- Upon expiration of the term set forth above, the following procedure shall apply, as the case may be, from the seventh month:
- if the loan is not more than thirty days in arrears, it shall be classified as “normal”;
- if the loan is more than thirty days in arrears, its classification shall result from the summation of the actual number of days in arrears and the number of days in arrears before its refinancing, for as long as the days in arrears are not equal to or lower than thirty days, in which event, the provisions of the preceding item shall apply.

- the reserves in respect of all loans from the individual mortgage loan portfolio that are more than twenty-four months in arrears shall be stated at 100% of their value, causing them to be reversed from our assets, on the date that is not more than three months after the date on which those loans were fully covered by such reserve, and
- loans reversed from our assets pursuant to the provisions of the preceding item that are restructured and regularize their situation shall be reincorporated in our assets upon it being verified that they have not been in arrears for more than thirty days during six consecutive months.

The following tables present information regarding the classification of our loans, as of the dates indicated based on borrower payment performance. Amounts shown include both current principal balance and accrued interest receivable, as required by the Central Bank.

Category/days	As of December 31, 2005									
	Consumer			Commercial				Total		
	Pre-91	Post-91	Other Individuals	Construction	Short Term corporate loans	Other Commercials	Public Sector			
(in thousands of pesos, except for percentages)										
Normal.....	681,936	701,158	207,166	1,126	318,548	127,880	278,166	2,315,980		
Potential risk and inadequate performance.....	39,408	31,845	8,849	8	—	6,613	—	86,723		
Problematic and deficient performance.....	22,175	16,045	4,871	—	—	5,246	—	48,337		
High risk of insolvency and difficult collection.....	38,630	19,794	2,833	1,212	—	—	—	62,469		
Uncollectible.....	31,319	21,748	341	—	154	—	—	53,562		
Uncollectible for technical reasons.....	16,085	12,395	389	—	—	—	—	28,869		
<b>Total.....</b>	<b>829,553</b>	<b>802,985</b>	<b>224,449</b>	<b>2,346</b>	<b>318,702</b>	<b>139,739</b>	<b>278,166</b>	<b>2,595,940</b>		
Non-performing loans.....	108,209	69,982	8,434	1,212	154	5,246	—	193,237		
Non-performing loans/total loans.....	13.04%	8.72%	3.76%	51.66%	0.05%	3.75%	—	7.44%		
Allocation of the reserve for loan losses.....	143,676	43,926	8,434	1,212	3,339	5,331	—	205,918		
Reserve for loan losses/non-performing loans.....	132.78%	62.77%	100.00%	100.00%	2,168.18%	101.62%	—	106.56%		
Net non-performing loans/total loans.....	(4.28)%	3.24%	—	—	(1.00)%	—	—	(0.49)%		

  

Category/days	As of December 31, 2004									
	Consumer			Commercial				Total		
	Pre-91	Post-91	Other Individuals	Construction	Short Term corporate loans	Other Commercials	Public Sector			
(in thousands of pesos, except for percentages)										
Normal.....	724,578	731,218	28,587	4	206,535	205,869	843,705	2,740,496		
Potential risk and inadequate performance.....	51,952	50,872	344	892	149	—	—	104,209		
Problematic and deficient performance.....	34,867	24,252	93	—	—	—	—	59,212		
High risk of insolvency and difficult collection.....	55,822	29,976	52	1,212	—	—	—	87,062		
Uncollectible.....	90,323	83,350	4	74	1,077	2,245	—	177,073		
Uncollectible for technical reasons.....	21,188	17,644	40	1,018	—	—	—	39,890		
<b>Total.....</b>	<b>978,730</b>	<b>937,312</b>	<b>29,120</b>	<b>3,200</b>	<b>207,761</b>	<b>208,114</b>	<b>843,705</b>	<b>3,207,942</b>		
Non-performing loans.....	202,200	155,222	189	2,304	1,077	2,245	—	363,237		
Non-performing loans/total loans.....	20.66%	16.56%	0.65%	72.00%	0.52%	1.08%	—	11.32%		
Allocation of the reserve for loan losses.....	211,978	113,685	314	2,304	3,069	3,482	—	334,832		
Reserve for loan losses/non-performing loans.....	104.84%	73.24%	166.14%	100.00%	284.96%	155.10%	—	92.18%		
Net non-performing loans/total loans.....	(1.00)%	4.43%	(0.43)%	—	(0.96)%	(0.59)%	—	0.89%		

## Analysis of Non-Performing Loan Portfolio

We have not always used the same classification methodologies for classifying our mortgage loans as “consumer” or “commercial” or as “performing” or “non-performing.” As a result, statistics regarding non-performing loans are not necessarily comparable from one period to another. See “—Classification of Loan Portfolio According to Central Bank Criteria.”

The following table presents information regarding non-performing loans as of the dates indicated.

	At December 31,			
	2005		2004	
	(in thousands of pesos, except for percentages)			
Non-performing loans				
Individual mortgage - Pre 91 loans .....	108,209	56.00%	202,200	55.67%
Individual mortgage - Post 91 loans .....	69,982	36.22%	155,222	42.73
Individual mortgage - Others loans.....	8,434	4.36%	189	0.05
Commercial loans - construction projects.....	1,212	0.63%	2,304	0.63
Commercial loans - short-term loans to corporations .....	154	0.08%	1,077	0.30
Commercial loans - Others loans .....	<u>5,246</u>	<u>2.71%</u>	<u>2,245</u>	<u>0.62</u>
Total non-performing loans .....	193,237	100.00%	363,237	100.00%
Reserve for loan losses .....	<u>205,918</u>	—	<u>334,832</u>	—
Reserve for loan losses as a percentage of non-performing loans.....	106.56%		92.18%	
Non-performing loans as a percentage of total loan portfolio .....	7.44%		11.32%	

## Analysis of Allowance for Loan Losses

	At December 31,	
	2005	2004
	(in thousands of Pesos, except for percentages)	
Reserve at beginning of period .....	334,832	419,807
Provisions charged to income .....	<u>19,871</u>	<u>17,502</u>
Subtotal .....	354,703	437,309
Charge-offs:		
Pre-1991 loans - individual mortgages .....	(83,488)	(62,508)
Post-1991 loans - individual mortgages.....	(60,340)	(35,551)
Post-1991 loans - construction projects .....	<u>(4,957)</u>	<u>(4,418)</u>
Total charge-offs.....	(148,785)	(102,477)
Reserve at end of period .....	205,918	334,832
Net charge to income statement.....	19,871	17,502
Ratio of net charges to income statement as a percentage of average loans .....	0.68%	0.56%
Charge-offs/average loans		
Overall .....	5.09%	3.29%
Pre-1991 loans - individual mortgages .....	2.86%	2.01%
Post-1991 loans - individual mortgages.....	2.07%	1.14%
Post-1991 loans - construction projects .....	0.17%	0.14%

	At December 31,	
	2005	2004
	(in thousands of Pesos, except for percentages)	
Reserve for loan losses / total loans.....	7.93%	10.44%
Reserve for loan losses / non-performing loans.....	106.56%	92.18%

## Charge-Offs

### *Policy*

Our charge-off policy conforms to regulations established by the Central Bank. Under Central Bank accounting rules, a mortgage loan becomes classified as “uncollectible” (at which point it must be 50.0% reserved provided it has a preferred guarantee) after being in arrears in excess of one year. After a period of one year in the “uncollectible” category, the loan is then 100.0% provisioned. The Central Bank requires that loans generally be charged off in the seventh month after becoming fully provisioned in the “uncollectible” category (*i.e.*, 31 months after the loan initially goes into arrears). Additionally, we charge off construction project loans to reduce the outstanding principal balance to the value of the underlying property. We evaluate those charge-offs on a case-by-case basis upon completion of the construction project, when the completed project is appraised.

Discretionary charge-offs are also made for borrowers who are deemed to be in a severe economic situation. No fixed charge-off criteria exist for such cases and our board of directors reviews each borrower’s situation on a case-by-case basis.

During the year ended December 31, 2000, we adopted a new charge-off policy regarding individual non-performing mortgage loans. Pursuant to the new policy, an individual mortgage loan must be fully provisioned after being past due for two years, and must be charged off within the following three months. In the specific case of previously restructured loans past due for twelve or more months, such loans will be deemed to have been past due for a period equal to the actual period past due *plus* the period past due at the time of the previous restructuring to determine whether the loan should be fully provisioned and charged off. As a result of the implementation of this new policy, on December 31, 2002, approximately Ps.74.1 million of non-performing loans were charged off during the year, of which approximately Ps.43.0 million were pre-1991 loans to individuals and approximately Ps.8.8 million post-1991 loans to individuals.

### *Charge-Off History*

During the year ended December 31, 2005, 2004 and 2003 we charged-off Ps.148.8 million in loans (5.09% of average loans), Ps.102.5 million in loans (3.29% of average loans) and Ps.222.4 million in loans (6.25% of average loans), respectively.

### *Pre-1991 loans—Individual Mortgage*

The loan charge-offs that we made in 1994 were primarily related to the 1989-1993 Restructuring. Since 1993, our charge-off levels have been driven primarily by the Restructuring Law and the Privatization law. The Restructuring Law required the adjustment of all outstanding individual mortgage loan balances to a value not exceeding 90% of the restated value of the loans determined by applying the *Índice de la Cámara Argentina de la Construcción* (the Argentine Construction Index) to the outstanding nominal balance of the loans as of April 1991. These total write-downs and forgiveness of the loan balances resulted in total write-downs of 28.2% of the loans. The charges to income for the write-downs of the loan balances were recognized as the loans were revalued.

### *Pre-1991 loans—Construction Projects.*

The charge-offs of construction loans since 1994 were the result of the write-down of certain construction loans in order to reduce the loan balances to their estimated realizable value.

### *Post-1991 loans*

During the years ended December 31, 2002, and 2001 we charged off individual mortgage loans in the amount of Ps.8.8 million and Ps.37.8 million, respectively.

For a discussion of our level of reserve for loan losses. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

### **Allocation of the Reserve for Loan Losses**

The following tables set forth information with respect to the allocation of the reserve for loan losses among types of loans as of the dates indicated.

<b>At December 31, 2005</b>				
<b>Reserve</b>	<b>Reserve/Loans in Category</b>	<b>Reserve/Total Loans</b>	<b>Loans in Category/Total Loans</b>	
(in thousands of pesos, except for percentages)				
<i>Consumer</i>				
Pre-91 Loans .....	143,676	17.3%	5.5%	32.0%
Post-91 Loans .....	43,926	5.5%	1.7%	30.9%
Other Individuals .....	8,434	3.8%	0.3%	8.6%
<i>Commercial</i>				
Construction.....	1,212	51.7%	0.1%	0.1%
Short term corporate loans .....	3,339	1.0%	0.1%	12.3%
Other commercials .....	5,331	3.8%	0.2%	5.4%
Public Sector .....	—	—	—	10.7%
Total reserve for loan losses.....	205,918		7.9%	100.0%
<b>At December 31, 2004</b>				
<b>Reserve</b>	<b>Reserve/Loans in Category</b>	<b>Reserve/Total Loans</b>	<b>Loans in Category/Total Loans</b>	
(in thousands of pesos, except for percentages)				
<i>Consumer</i>				
Pre-91 Loans .....	211,978	21.7%	6.6%	30.5%
Post-91 Loans .....	113,685	12.1%	3.5%	29.2%
Other Individuals .....	314	1.1%	—	0.9%
<i>Commercial</i>				
Construction.....	2,304	72.0%	0.1%	0.1%
Short term corporate loans .....	3,069	1.5%	0.1%	6.5%
Other commercials .....	3,482	1.7%	0.1%	6.5%
Public sector.....	—	—	—	26.3%
Total reserve for loan losses.....	334,832		10.4%	100.0%

### **Composition of Deposits**

The following table sets forth the composition of our deposits for the dates indicated:

**At December 31,**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(in thousands of pesos)		
Checking accounts.....	21,148	20,876	29,830
Savings accounts.....	126,094	73,875	33,693
Deposits in guarantee.....	9,223	9,095	9,489
Other deposits.....	9,975	7,539	28,408
Time deposits.....	358,181	117,964	16,892
Plus: Interest Payable and differences in quotations.....	<u>3,067</u>	<u>1,025</u>	<u>10,531</u>
Total deposits.....	<u>527,688</u>	<u>230,374</u>	<u>128,843</u>

## MANAGEMENT

### Directors, Alternate Directors and Principal Managers

#### *Board of Directors*

Our board of directors is currently composed of thirteen directors and three alternate directors which is less than the total number of alternate directors provided for in the bylaws. The members of the board of directors are elected to hold office for two-year terms by the shareholders at their annual general meeting, and may be reelected indefinitely. The Directors are in charge of the administration of the Bank. The Executive Committee conducts the ordinary business of the Bank and is supervised by the board of directors. The board of directors is composed of:

- two members representing Class A Shares;
- one member representing Class B Shares;
- one member representing Class C Shares; and
- nine members representing Class D Shares;

and their respective alternates. The holders of Class D Shares have the right to elect nine of the members of the board of directors and their respective alternates. See “—Election and Meetings of Directors” and “Description of Capital Stock—Voting Rights.”

Due to the crisis that has been affecting Argentina since 2001, our board of directors has assumed direct management control over the day-to-day operations of the Bank.

#### *Duties and Liabilities of Directors*

Under Argentine law, directors have the obligation to perform their duties with the loyalty and the diligence of a prudent business person. Directors are jointly and severally liable to us, shareholders and third parties for the improper performance of their duties, for violating the law, the bylaws or rules and procedures issued by the Bank, if any, and for any damage caused by fraud, abuse of authority or gross negligence. Decree 677/01 has established certain obligations in connection with a director’s duty of loyalty in listed companies. The following are considered integral to a director’s duty of loyalty: (i) the prohibition from using corporate assets and confidential information for private objectives; (ii) the prohibition to take advantage, or to allow another one to take advantage, by action or omission, of the business opportunities of the company; (iii) the obligation to exercise board powers only for the purposes for which the law, the bylaws or the meeting or the board of directors have intended; and (iv) the obligation to take strict care so that board acts never go, directly or indirectly, against the company’s interests. In case of doubt with respect to a director’s fulfillment of his or her duty of loyalty, the director shall have the burden of proof. Under Argentine law, specific duties may be assigned to a director by the bylaws or by a resolution at a shareholders’ meeting. In such cases, a director’s liability will be determined with reference to the performance of such duties, provided that certain technical requirements are met. Argentine law prohibits directors from engaging in activities in competition with the Bank without express shareholder authorization. A director must inform the board of directors of any conflicting interest he may have in a proposed transaction and must abstain from voting thereon.

A director will not be liable if, notwithstanding his presence at the meeting at which a resolution was adopted or his knowledge of such resolution, a written record exists of his opposition thereto and he reports his opposition to the Supervisory Committee before any complaint against him is brought to the board of directors, the Supervisory Committee, a shareholders’ meeting, a competent governmental agency or the courts. Except in the event of our mandatory liquidation or bankruptcy, the shareholders’ approval of a director’s performance terminates any liability of a director with respect to us, provided that shareholders holding at least 5.0% of our capital stock do not object and provided further that such liability does not result from a violation of the law or the bylaws.

We may initiate causes of action against directors upon a majority vote of the shareholders. If we have not initiated a cause of action within three months of a shareholders’ resolution approving its initiation, any shareholder may start the action on our behalf and for our account.

Pursuant to the bylaws, we will indemnify all current and former directors, members of the Supervisory Committee, and executive and senior management against any liabilities incurred by any such person in connection with the defense of any issue, lawsuit or procedure in which they may be involved as a result of the public offering,



placement and trading of the shares of the Bank. This indemnification shall include payment of amounts mandated in court judgments covered by the company's insurance policies, except where the Director, member of the supervisory committee, manager, former director, former syndic or former manager has been judged by final judgment to have acted with fraud or gross negligence. We may obtain directors' and management's liability insurance with respect to such losses, in which case the indemnity will be limited to liabilities in excess of, or not otherwise covered by, such insurance.

The Bank has contracted with *La Meridional Compañía Argentina de Seguros S.A.* to provide a US\$18 million directors' and managers' liability policy which expires on September 21, 2006. The premium paid amounted to US\$245,426.31, including VAT.

#### ***Recent Change in Composition of the board of directors***

On April 28, 2005, our Class A, B, C and D shareholders held special Class meetings. At such meetings:

- our Class D shareholders re-elected Messrs. Ernesto M. Viñes, Gabriel A.G. Reznik and Jacobo J. Dreizzen as regular directors for a term of two years and appointed Mr. Alfredo Mac Laughlin as regular director for a term of two years to replace Mr. Jorge M. Grouman whose term of office had expired. Further, Messrs. Cedric David Bridger, Alejandro Gustavo Elsztain, Gabriel Gustavo Saidón and Jorge M. Grouman were appointed as alternate directors. The term of office of all of the above mentioned regular and alternate directors is two years; and
- our Class A shareholders re-elected Messrs. Julio A. Macchi and Carlos B. Pisula as regular directors for a term of two years.

On December 7, 2005, Mr. Alfredo Mac Laughlin resigned as regular director due to his appointment as Secretary of the Ministry of Economy. On December 14, 2005, Mr. Pedro del Piero resigned as regular director.

The following table sets forth the members of our board of directors as of February 28, 2006, appointed on the shareholders' meetings held on May 31, 2004, September 17, 2004 and April 28, 2005.

<b>Last and First Name</b>	<b>Date of Birth</b>	<b>Position</b>	<b>Director Since</b>	<b>Beginning of Term</b>	<b>Expiration of Term</b>	<b>Class</b>
Lifsic de Estol, Clarisa Diana (1)	07-28-62	Chairwoman	1999	05-31-04	12-31-05	D
Elsztain, Eduardo Sergio (1)	01-26-60	Vice-Chairman	1999	05-31-04	12-31-05	D
Vergara del Carril, Pablo Daniel (1)	10-03-65	Director	2002	05-31-04	12-31-05	D
Vacant (2)	—	Director	—	—	—	—
Reznik, Gabriel Adolfo Gregorio (3)	11-18-58	Director	2002	04-28-05	12-31-06	D
Grouman, Jorge Miguel (5)	04-11-51	Director	2003	05-30-03	12-31-04	D
Zang, Saúl (1)	12-30-45	Director	1999	05-31-03	12-31-05	D
Viñes, Ernesto Manuel (3)	02-05-44	Director	2002	04-28-05	12-31-06	D
Dreizzen, Jacobo Julio (3)	10-13-55	Director	2003	04-28-05	12-31-06	D
Pisula, Carlos Bernardo (3)	12-16-48	Director	2003	04-28-05	12-31-06	A
Macchi, Julio Augusto (3)	04-27-40	Director	1997	04-28-05	12-31-06	A
Fornero, Edgardo Luis José (4)	10-14-51	Director	1997	09-17-04	12-31-05	B
Bensandón, Federico León (4)	01-17-33	Director	2002	09-17-04	12-31-05	C

(1) Re-elected at the Meeting held on May 31, 2004.

(2) After Pedro Del Piero's resignation on December 2005.

(3) Re-elected at the Meeting held on April 28, 2005.

(4) Appointed by the Ministry of Economy and Production (Ministry Resolution N° 666 (Expiration of the term of office: 12/31/2005).

(5) He replaced Mr. Mac Laughlin after his resignation and he shall hold office until he takes office as alternative director once the Central Bank approves his appointment.

The following table sets forth the alternate members of the board of directors as of February 28, 2006, appointed on May 31, 2004, September 17, 2004 and April 28, 2005.

<b>Last and First Name</b>	<b>Date of Birth</b>	<b>Position</b>	<b>Director Since</b>	<b>Beginning of Term</b>	<b>Expiration of Term</b>	<b>Class</b>
Elsztain, Daniel Ricardo (1)	12-22-72	Alternate Director	—	—	12-31-05	D
Efkhanian, Gustavo Daniel (2)	10-28-64	Alternate Director	1999	05-31-04	12-31-05	D
Bridger, Cedric David (3)	11-09-35	Alternate Director	2001	04-28-05	12-31-06	D
Elsztain, Alejandro Gustavo (4)	03-31-66	Alternate Director	—	—	—	D
Grouman, Jorge Miguel (4)	04-11-51	Alternate Director	2003	04-28-05	12-31-06	D
Saidon, Gabriel Gustavo (4)	04-15-58	Alternate Director	—	—	—	D
Gómez, Ricardo Mariano (5)	07-03-56	Alternate Director	1998	09-17-04	12-31-05	B

- (1) Appointed at the Shareholders' Meeting held on May 31, 2004. The performance of his duties is subject to Central Bank's prior approval.
- (2) Re-elected at the Shareholders' Meeting held on May 31, 2004.
- (3) Re-elected at the Shareholders' Meeting held on April 28, 2004.
- (4) Appointed at the Shareholders' Meeting held on April 28, 2005. The performance of his duties is subject to Central Bank's prior approval.
- (5) Appointed by the Ministry of Economy and Production (Ministry Resolution N° 666. (Expiration of the term of office: 12/31/2005)

*Clarisa Diana Lifsic de Estol.* Ms. Lifsic holds a degree in economics from the University of Buenos Aires and a master of science in management from the Massachusetts Institute of Technology. She has held various financial positions in private sector companies since 1985. She has worked for Banco de Crédito Argentino, Citibank New York, Roberts Capital Markets and IRSA. She is presently a Managing Director of Consultores Asset Management S.A. and a Director and Chief Financial Officer of Cresud.

*Eduardo Sergio Elsztain.* Mr. Elsztain studied economics at the University of Buenos Aires. He has been engaged in the real estate business for more than 10 years and has been Chairman of the board of directors of IRSA since 1991. He has also served as a director of several other real estate companies. He founded Consultores Asset Management S.A. and has served as its President since 1989. He is also Chairman of the Board of Cresud and Alto Palermo S.A. ("APSA"), as well as a Director of Brazil Realty S.A. Empreendimentos e Participações ("Brazil Realty"). Mr. Elsztain is the cousin of Fernando A. Elsztain, an Alternate Director of the Bank and IRSA's Chief Commercial Officer.

*Pablo Vergara del Carril.* Mr. Vergara del Carril obtained a degree in law from the Catholic University of Buenos Aires where he teaches Commercial Law and Contract Law. He also teaches Corporate Law, Contracts and Capital Markets in post-graduate courses. Mr. Vergara del Carril is a member of the Legal Advisory Committee of the Cámara de Sociedades Anónimas as well as Vice President of the Competition Law Committee of the Colegio de Abogados de la Ciudad de Buenos Aires. He is a member of the board of directors of Empreendimento Recoleta S.A. and Nuevas Fronteras S.A. He has been a director in the Board of the Bank since 2002.

*Gabriel Adolfo Gregorio Reznik.* Mr. Reznik has been a Class D Alternate Director of the Bank since June 2002. He has served as Director and Manager of the IRSA Technology Department since 1992. He currently serves as Director of APSA as well as the Office Premises Operation and Maintenance Areas. He has a degree in Civil Engineering from the Universidad de Buenos Aires and a Masters in Administration of Real Estate and Construction Projects from the Politecnich School of Madrid.

*Jorge Miguel Grouman.* Mr. Grouman holds a degree in accounting from the Universidad de Buenos Aires. Since 1976, Mr. Grouman has held several positions with International Standard Brands in Bs. As., Argentina and in Santiago, Chile, The Chase Manhattan NA in Buenos Aires and in New York, and BankBoston. Mr. Grouman has also served as director of Origenes AFJP and Banco de Galicia y Buenos Aires S.A.

*Saúl Zang.* Mr. Zang obtained a degree in law from the University of Buenos Aires. He was a member of the Supervisory Committee of IRSA from 1991 to 1994. He has been Second Vice-Chairman of the board of directors of IRSA since 1994. He is also a partner of the law firm of Zang, Bergel & Viñes. He is also the Second Vice-Chairman of Cresud, Consultores Asset Management S.A. and APSA.

*Ernesto Manuel Viñes.* Mr. Viñes obtained a degree in law from the Universidad de Buenos Aires. He has been an alternate director for APSA since 1994 and is a partner at the law firm of Zang, Bergel & Viñes. He is also been a member of the board of directors of IRSA and an alternate director of Cresud, among other companies.

*Jacobo Julio Dreizzen.* Mr. Dreizzen holds a degree in economics from the University of Buenos Aires and a master in business administration from Universidad Católica de Río de Janeiro. On 1987, Mr. Dreizzen acted as advisor to the presidency of the Central Bank. Afterwards, Mr. Dreizzen acted as director of the Central Bank, manager of the Banco de Galicia y Buenos Aires S.A, director of Galicia Capital Markets S.A. and as alternate director of the B.I.C.E.

*Carlos Bernardo Pisula.* Mr. Pisula holds a degree in accounting from the Universidad de Buenos Aires. During the period 1996 through 1999, Mr. Pisula acted as advisor to the vice-presidency of the Bank. Mr. Pisula is the president of the Finance Commission and vice president of the Housing Commission of the *Unión Argentina de la Construcción*. Mr. Pisula is also a member of various boards of different private companies related to the construction and real estate industry.

*Julio Augusto Macchi.* Mr. Macchi has been a Director of the Bank since 1997. He was Chairman of the Bolsa de Comercio de Buenos Aires from May 1994 through April 1998, and has been a member of the Buenos Aires Stock Market since 1963. Mr. Macchi is Chairman and a Director of Banco de Valores S.A., of which he is also a founder. Mr. Macchi holds a law degree from the University of Buenos Aires.

*Edgardo Luis José Fornero.* Mr. Fornero has been a Class B Director of the Bank since September 1997. Prior to that time, he served as representative of the Bank's employee union and Housing Secretary of the Banking Association. Mr. Fornero is studying law at the University of Lomas de Zamora.

*Federico León Bensadón.* Mr. Bensadon has been a Class C Director of the Bank since September 2002. He holds a civil engineering degree from Buenos Aires University. He graduated in 1957. He is a member of the board of directors of the following companies: Telemetrix S.A. (Costa Salguero), Emaco S.A., Ferromac S.A., DR S.A., among others. He is also a Treasurer of the Cámara Argentina de la Construcción and Secretary of the Unión Argentina de la Construcción.

We have not entered into any employment agreement with any of our directors. Mr. Ernesto Viñes and Mr. Edgardo Fornero perform executives and/or administrative functions at the Bank, and therefore are considered as employees of the Bank.

### ***Executive Committee***

At the General Extraordinary Shareholders' Meeting held on March 15, 1999, our bylaws were amended to create an Executive Committee. The Executive Committee, whose general purpose is to oversee our ordinary business, is comprised of five to nine Directors selected by Class D shareholders and an equal or fewer number of Alternate Directors of the same class of shares as the board of directors shall determine. The Executive Committee is required to meet at least once per month or whenever called by the Chairman. The attendance of an absolute majority of the members of the Executive Committee constitutes a quorum and resolutions shall be adopted by majority vote of the members present.

Pursuant to the bylaws, as amended, the powers and duties of the Executive Committee include (i) conducting the ordinary business of the Bank as well as any matters delegated to it by the board of directors; (ii) developing commercial, credit-related and financial policies subject to approval by the board of directors; (iii) creating, maintaining and restructuring the Bank's administration; (iv) creating Special Committees, approving its structures or functional levels and determining the scope of their duties; (v) naming general managers, the Executive Vice President and other members of the senior management; (vi) proposing to the board of directors the creation of branches, agencies or representative offices inside or outside Argentina; (vii) supervising management of the Bank's subsidiaries; (viii) submitting contracting guidelines, annual budgets, cost and investment estimates, necessary debt levels and plans of action for consideration of the board of directors; (ix) approving novations, refinancings, debt write-offs and similar matters when necessary in the ordinary course of business of the Bank; and (x) setting forth its own internal regulations.

The current members of the Executive Committee are:

Eduardo Sergio Elsztain (Chairman)  
Clarisa Diana Lifsic de Estol (Vice-Chairwoman)

Saúl Zang.....	(member)
Ernesto Manuel Viñes.....	(member)
Pablo Daniel Vergara del Carril.....	(member)
Adolfo Gregorio Reznik .....	(substitute member)

***Election and Meetings of Directors***

Our directors are elected for staggered two-year terms, unless they are elected to replace a previously appointed director. Following implementation of the *Programa de Propiedad Participada* (“PPP”), holders of Class B Shares are entitled to elect one director and one alternate director, provided that such shares represent more than 2.0% of our outstanding capital stock at the time the Shareholders meeting is convened. Upon the transfer of Class C Shares to certain companies engaged in housing construction or real estate activities, holders of Class C Shares will be entitled to elect one director and one alternate director for so long as such shares represent more than 3.0% of our outstanding capital at the time the shareholders meeting is convened. Until the foregoing conditions are met, such directors will be elected by the Class A Shares held by the Argentine government. If the percentage of our capital represented by Class B or Class C Shares falls to 2.0% or 3.0% or lower, respectively, holders of such classes will be entitled to vote jointly with the Class D shareholders. Holders of Class D Shares are entitled to elect nine directors and respective alternates. For so long as at least one Class A Share is outstanding, holders of Class A Shares will be entitled to elect two directors and two alternates.

In general, directors are appointed by the vote of the majority of votes within each class of shares. The determination of the percentage of our capital represented by each class of stock is made in each case with respect to the capital outstanding as of the date of the shareholders’ meeting at which the election in question will be held. In the event that no shares of a determined class are represented at the second call of shareholders’ meeting called for the purpose of electing directors, the directors and alternates that the class is entitled to appoint will be elected by the holders of the other classes of shares, voting as a single class, except in the event no shareholders attend a Class A shareholders’ meeting, in which case the members of the Supervisory Committee elected by the Class A shareholders will appoint the directors and alternates that the holders of the Class A shares are entitled to appoint.

Any or all directors elected by holders of a particular class of shares may be removed without cause by a simple majority of shares of such class of shares present at an ordinary shareholders’ meeting, provided that such removal was proposed in the agenda for such meeting. Any directors so removed will be replaced by alternates of the same class, in the order in which such alternates were elected, until an election for their replacement has been held (which election may take place at the same meeting as the removal).

Any shareholder or group of shareholders holding more than 3.0% of the Class D Shares may require that we send a slate of candidates for election as directors of such class proposed by such shareholder or group to each holder of Class D Shares. In addition, the board of directors may propose a slate of candidates for election as directors by each class of shares, and such slate will be sent to each holder of shares together with any slates proposed by shareholders as described in the preceding sentence. Any shareholder present at a meeting may propose candidates for election as directors. If any shareholder opposes the election of directors by slate, all directors will be elected individually, and each nominee on a slate will be deemed to have been nominated individually. If no slate or individual, as the case may be, obtains the majority of Class D votes present at the meeting, Class D shareholders shall elect one of the two slates or individuals, as the case may be, which obtained more votes in the previous election.

Argentine law requires the majority of our directors to be residents of Argentina. All directors must establish a legal domicile in Argentina for service of notices in connection with their duties. In addition, a director must satisfy certain suitability and experience requirements of the Central Bank before obtaining regulatory approval to begin his term.

The bylaws require the board of directors and the Executive Committee to meet at least once per month. The Chairman of the board of directors may call a meeting of directors at any time and must call such a meeting upon the request of any director. The quorum requirement for meetings of the board of directors is a majority of the members, and if a quorum is not available one hour after the time set for a regularly called meeting, the Chairman or the person serving in his place at such meeting may invite the alternates of the same class as the absent directors to join the meeting in order to reach the minimum quorum. Resolutions must be adopted by a majority of the directors

present, and each director shall have the right to one vote (except for the cases when the director has an interest conflicting with those of the company); however, the Chairman or the person serving in his place at a particular meeting is entitled to cast the deciding vote in the case of a tie. By reason of the election of directors by classes of shares, as long as there exist several classes of shares, the appointment of Directors by cumulative voting shall not apply.

On November 1, 2005, we established the Money Laundering Prevention and Control Committee and appointed Directors Julio Macchi and Pedro del Piero as members thereof. Due to Mr. del Piero's resignation from the Board, Mr. Ernesto Viñes was elected as member of the Prevention Committee.

### ***Independence of Directors and Supervisory Committee***

Pursuant to the terms of General Resolution 400/02 of the CNV ("Resolution 400"), members of the board of directors or the Supervisory Committee of a public company such as the Bank shall inform the CNV within 10 days from the date of their appointment, whether such members of the board of directors or the Supervisory Committee are "independent." For purposes of Resolution 400, a director shall not be considered independent in certain situations, including where a director (i) owns a 35% equity interest in a company, or a lesser interest if such director has the right to appoint one or more directors of a company (hereinafter "significant participation") or has a significant participation in a corporation having a significant participation in the company or a significant influence on the company, (ii) depends on shareholders, or is otherwise related to shareholders, having a significant participation on the company or of other corporations in which these shareholders have directly or indirectly a significant participation or significant influence, (iii) is or has been in the previous three years an employee of the company; (iv) has professional relationship or is a member of a corporation that maintains professional relationships with, or receives remuneration (other than the one received in consideration of his performance as a director) from, a company or its shareholders having a direct or indirect significant participation or significant influence on the same, or with corporations in which these also have a direct or indirect significant participation or a significance influence; (v) directly or indirectly sells or provides goods or services to the company or to the shareholders of the same who have a direct or indirect significant participation or significant influence, for higher amounts than his remuneration as a member of the administrative body; or (vi) is the spouse or parent (up to second grade of affinity or up to fourth grade of consanguinity) of persons who, if they were members of the administrative body, would not be independent, according to the above listed rules.

Directors Julio Augusto Macchi, Federico León Bensadón, Carlos Bernardo Pisula, Jorge Miguel Grouman and Jacobo Julio Dreizzen are independent members of the board of directors pursuant to the terms of Resolution 400 of the CNV.

Syndics Silvana Gentile and Martín Scotto and alternate syndic Guillermo Stok are non-independent members of the Supervisory Committee pursuant to the Resolution of the CNV.

Directors, Eduardo Sergio Elsztain, Clarisa Lifsic de Estol, Saúl Zang, Ernesto Manuel Viñes, Gabriel Gregorio Reznik, Pablo Vergara del Carril, and Edgardo L. Fornero and alternate directors, Ricardo Daniel Elsztain, Alejandro Gustavo Elsztain, Cedric Bridger, Gustavo Daniel Efkhianian, Gabriel Saidón and Ricardo Gómez are non-independent members of the board of directors pursuant to the terms of Resolution 400 of the CNV.

Syndics José D. Abelovich, Marcelo Héctor Fuxman and Ricardo Flammini and alternate syndics Silvia Cecilia De Feo, Roberto Murmis, and Alicia G. Rigueira are independent members of the Supervisory Committee pursuant to Resolution 400 of the CNV.

### **Management**

As of February 28, 2006, our senior management consists of the following officers:

<b><u>Name</u></b>	<b><u>Position</u></b>
Clarisa Diana Lifsic de Estol	Finance Assistance Manager
Ernesto Manuel Viñes	Legal Department Manager
Gabriel Saidón	Finance Manager

<u>Name</u>	<u>Position</u>
Gustavo Daniel Efkhonian	Controller Manager
Fernando Rubín	Organizational Development Manager
Flavia Gómez Beret	Risk and Delinquency Manager
Carlos Daniel Berruezo	Operations and Technology Manager
Miguel Sarria	Business Manager
Ernesto Saúl Herscovich	Audit Manager
Augusto Rodríguez Larreta	Manager of the Relations with the Community Department

*Ernesto Viñes.* Mr. Viñes obtained a degree in law from the Universidad de Buenos Aires. He has been an alternate director for APSA since 1994 and is a partner at the law firm of Zang, Bergel & Viñes. He is also been a member of the board of directors of IRSA and an alternate director of Cresud, among other companies.

*Gabriel Saidón.* Mr. Saidón joined the Bank in August 2000. Mr. Saidón received a degree in Economics at the Universidad Nacional de La Plata and a Master in Economy from the Instituto Torcuato Di Tella, and a Masters Degree in Economics at the University of Chicago. Prior to joining the Bank, he served as Chief Financial Officer of Alto Palermo, and as alternate director of the Alto Palermo's board of directors. Prior to that, he worked as Citicorp Equity Investments' Chief Financial Officer and Chief of Staff of the South American Division of Citibank. He was also member of the boards of the following companies: Transportadora de Gas del Sur S.A., Distribuidora de Gas Pampeana S.A., Distribuidora de Gas del Sur S.A., Alto Paraná S.A., Aceros Zapla S.A., Citicorp Equity Investments S.A., Alto Palermo Shopping Argentino S.A., and Tarshop S.A.

*Gustavo Daniel Efkhonian.* Mr. Efkhonian served as Executive Director of the Bank from 1997 to 1999, Director since 1993 and has served in various capacities at the Bank since 1991. Mr. Efkhonian supervises matters related to corporate business. Previous thereto, Mr. Efkhonian served as a government appointed advisor to the Bank in connection with the 1989-1993 Restructuring. Mr. Efkhonian has also served as an alternate director of *Banco de Inversión y Comercio Exterior* (BICE). From 1988 to 1991, Mr. Efkhonian was an economist for the Instituto de Estudios Económicos de la Realidad Argentina y Latinoamericana. Mr. Efkhonian received a degree in economics from the University of Córdoba.

*Fernando Rubín.* Mr. Rubín joined the Bank as the Organization Development Manager in July of 2001. He has obtained a degree in Psychology from the Buenos Aires University and a post-degree in Human Resources and Organizational Analysis in E.P.S.O. (Organizations Social Psychology School). Prior to joining the Bank, he served as Human Resources Corporate Manager of IRSA Group. He worked as Human Resources Director of LVMH (Louis Vuitton Moët Hennessy) and of Chandon Wineries in Argentina and Brazil. He also served as Human Resources Division Manager of Roland Berger & Partner-International Management Consultant.

*Flavia Gómez Beret.* Mrs. Gómez Beret joined the Bank in September 2003. Mrs. Gomez Beret obtained a degree in scientific programmer and graduated in mathematical from Buenos Aires University. Since 1998 until August 2003 she worked as Loan & Consulting manager for Banco Itaú Argentina S.A. Between 1987 and 1995 she acted as VP Risk & Profitability Management and Risk & Profitability Manager for Citibank. Mrs. Gómez Beret also worked as independent consultant and researcher the CONICET.

*Miguel Sarria.* Mr. Sarria joined the Bank in June 2003. Mr. Sarria holds a degree in accounting from Buenos Aires University. He acted as Business Manager for Argencard since 1999 until April 2002. Between 1993 and 1998 he worked as development commercial manager for Banco de Galicia y Buenos Aires S.A. Mr. Sarria also served as associate partner of Andersen Consulting in his banking advisor department from 1981 until 1993.

*Ernesto Saúl Herscovich.* Mr. Herscovich joined the Bank in June 2003. He holds a degree in accounting from Buenos Aires University. From 1997 to June 2003 he was Citibank's Retail Banking Audit Manager. In addition, acting on behalf of Citibank, he was in charge of the Acex Trust assets collection management. From 1994 to 1997 he was General Supervision Inspector of the Central Bank's Superintendence of Financial and Foreign Exchange Institutions. From 1985 to 1994 he worked as Financial Institutions Audit Supervisor and as Responsible

Officer of the Technical Area of the Consulting Department at Estudio González Fisher. Prior to that, he worked as Audit Manager of Banco de la Provincia de Santa Cruz, Audit Supervisor at Estudio Bertora y Asociados and Accounting and Cost Analyst of Transportadora de Caudales Juncadella S.A. and Kanmar S.A.F.A.M.

*Augusto Rodríguez Larreta.* Mr. Rodríguez Larreta joined the Bank in June 2001. He holds a degree in Political Sciences and Journalism from Universidad Católica Argentina. He worked as IRSA's Institutional Relations Manager from July 1999 to June 2001. Before that, he was spokesman and Institutional Relations Director of the Ministry of Economy from October 1996 to June 1999. He also worked as external consultant for different companies and as political advisor to the Embassy of Japan. He is also founder of Sophia Group and Red Solidaria.

*Carlos Daniel Berruezo.* Mr. Berruezo holds a degree in computing from the Universidad de Buenos Aires. From 1990 to 2003 Mr. Berruezo served in Citibank and his last appointment was as Sub-Regional Manager of Help Desk and Field Support for Citibank, Provencred and Siembra in Argentina, Paraguay and Uruguay. From 1997 to 1990 Mr. Berruezo worked for Banco Rio. He also served as advisor for ACA, Mercedes Benz Argentina and Editorial Perfil.

Effective as of December 1, 2005, Mr. González Pagano resigned as Management and Operations Manager and Mr. Carlos Berruezo assumed his position with the ensuing changes in the membership of the various committees on which Mr. Gonzalez Pagano had been appointed.

### ***Supervisory Committee***

The bylaws provide for a Supervisory Committee consisting of five members ("Syndics") and five alternate members. The members of the Supervisory Committee are elected as follows: three members of the Supervisory Committee and three alternates are elected jointly by the Class C and Class D Shares, one member and one alternate are elected by the Class B Shares (to the extent such shares represent more than 2.0% of our outstanding capital stock) and one member and one alternate are elected by the Class A Shares. Syndics and alternate syndics are appointed for a two-year period. Pursuant to Argentine law, only lawyers and accountants admitted to practice in Argentina may serve as syndics of an Argentine *sociedad anónima*.

If Class B Shares do not represent 2.0% of our capital stock and the Class C Shares do not represent 3.0% of our capital stock, the Supervisory Committee will be reduced to three members and three alternates. Two members and two alternate members will be elected jointly by the Class B, C and D Shares and one member and one alternate member will be elected by the Class A Shares.

Meetings may be called by any of the syndics and shall be held with the presence of the absolute majority of its members, and resolutions shall be adopted by a majority of votes. Pursuant to article 294 of the Corporate Law 19.550 as amended, the primary duties and powers of the Supervisory Committee are to: (i) supervise and inspect the corporate books and records whenever necessary, but at least quarterly; (ii) attend meetings of the directors, executive committee and shareholders; (iii) prepare an annual report concerning our financial condition and submit it to the shareholders at the ordinary meeting; (iv) provide certain information concerning us upon written request of any shareholder holding at least 2.0% of our outstanding capital; (v) call an extraordinary shareholders' meeting when necessary, on its own initiative or at the request of the shareholders, or an ordinary one when the board of directors fails to do so; (vi) include matters for the agendas of any meeting the Supervisory Committee must attend; (vii) supervise and monitor our compliance with laws and regulations, the bylaws and the shareholders' decisions; (viii) investigate written complaints submitted by holders of at least 2.0% of our capital; (ix) request judicial dissolution of the Bank and supervise the process; (x) designate directors when there are none remaining on the board of directors and the shareholders have failed to appoint replacements; and (xi) request judicial intervention in extraordinary circumstances, such as executive officer malfeasance threatening our condition. In performing these duties, the Supervisory Committee does not control the operation of the Bank.

As a result of the resignations filed by Messrs. Néstor Luis Fuks and Nicolás Dilemia, on November 1, 2005, Silvana María Gentile and Martín Esteban Scottó took office as replacing alternate syndics for Class "A" and "B" respectively.

On January 23, 2006, the Ministry of Economy and Production gave notice of Resolution No. 20 whereby, in accordance with the provisions of Section 20 of Law. No. 24,855, Section 50 of Decree No. 924/97 and Decree No. 1359/04, Mr. Guillermo Stok was appointed alternate syndic on behalf of Class “A” shares.

The terms of service of the members referred to below will expire in December 2004, although each of them is expected to continue to serve until their successors are elected. On April 28, 2005, each of our Class A, B, C and D shareholders held a special shareholders’ meeting. At those meetings: (a) our Class D and C Shareholders appointed Mr. José Daniel Abelovich, Marcelo Héctor Fuxman and Ricardo Flammini as regular syndics for a two year term, and as alternate syndics, Mr. Roberto Murmis, Mrs. Alicia Graciela Rigueira and Silvia Cecilia De Feo; (b) our Class B Shareholders appointed Mr. Nicolás Dileria as regular syndic and Mr. Martín E. Scotto as alternate syndic; and (c) our Class A shareholders appointed Mr. Néstor Luis Fuks as regular syndic, and Mrs. Silvana Maria Gentile as alternate syndic.

As of February 28, 2006, the Supervisory Committee was composed of five syndics and five alternate syndics, as follows:

<u>Name</u>	<u>Position</u>	<u>Class</u>	<u>Expiration of Term</u>
Silvana María Gentile .....	Syndic	A	12/31/06
José Daniel Abelovich.....	Syndic	D and C	12/31/06
Marcelo Héctor Fuxman.....	Syndic	D and C	12/31/06
Ricardo Flammini .....	Syndic	D and C	12/31/06
Martín E. Scotto .....	Syndic	B	12/31/06
Guillermo Stok.....	Alternate Syndic	A	12/31/06
Vacant .....	—	—	—
Roberto Murmi.....	Alternate Syndic	D and C	12/31/06
Alicia Graciela Rigueira.....	Alternate Syndic	D and C	12/31/06
Silvia Cecilia De Feo .....	Alternate Syndic	D and C	12/31/06

*Silvana María Gentile.* Ms. Gentile has been a member of the Supervisory Committee of the Bank since 1997. She has served as a member of *Sindicatura General de la Nación* (“SIGEN”) since 1979 and currently serves as a Syndic of Pellegrini S.A. and Nación AFJP S.A. Ms. Gentile holds degrees in accounting and business administration from the University of Lomas de Zamora.

*José D. Abelovich.* Mr. Abelovich obtained a degree in accounting from the Universidad de Buenos Aires. He is a founding member and partner of Abelovich, Polano and Associates/SC International, a public accounting firm in Argentina. Formerly, he had been a Manager of Harteneck, López y Cía and has served as a senior advisor in Argentina for the United Nations and the World Bank. Moreover, he is a member of the Supervisory Committees of APSA, Hoteles Argentinos S.A. and Inversora Bolívar S.A.

*Marcelo H. Fuxman.* Mr. Fuxman obtained a degree in accounting from the Universidad de Buenos Aires. He is a partner of Abelovich, Polano and Associates/SC International, a public accounting firm in Argentina. He is also a member of the Supervisory Committee of Alto Palermo S.A. (APSA) and Inversora Bolívar S.A.

*Ricardo Flammini.* Mr. Flammini holds a degree in accounting from the Universidad Nacional de La Plata. Mr. Flammini acted as syndic of the Bank since September 1997 until August 2001 and on May 30, 2003 he was elected for a two year term. Mr. Flammini worked as auditor for the Tribunal de Cuentas de la Nación and he was a member of the Corporación de Empresas Nacionales. At such time he acted as syndic of Segba S.A., Hidronor S.A., YPF S.E., YCF S.E., Encotesa, Intercargo S.A., Banco Caja de Ahorro S.A., Pellegrini S.A. Gerente de Fondos Comunes de Inversión, Nación Bursátil Sociedad de Bolsa S.A., Garantizar S.G.R. and Nación AFJP. He currently serves as syndic of BACS Banco de Crédito y Securitización, BHN Inmobiliaria S.A., BHN Sociedad de Inversión S.A., BHN Vida S.A. BHN Seguros Generales S.A., BHN Seguros de Crédito S.A., ACH S.A., Edenor S.A., and Central Puerto S.A.



*Martín E. Scotto.* Mr. Scotto obtained a degree in law from the Universidad de Buenos Aires (1996) and he works for the Sindicatura General de la Nación. Mr. Scotto is syndic of the Banco de Inversión y Comercio Exterior S.A. (BICE) and Nación Seguros de Vida S.A since 2001. Since 2002, Mr. Scotto is a member of the supervisory committee of the Nuevo Banco Bisel S.A., Nuevo Banco Suquia S.A. and Bisel Servicios S.A.

*Guillermo Stok.* Mr. Stok holds a degree in accounting and business management from the Argentine Catholic University. At present, he works as representative of the SIGEN in the Trust Fund for Business Reconstruction and until August 2004, he served as syndic of Nación Fideicomisos S.A.

*Roberto Daniel Murmis.* Mr. Murmis holds a degree in accounting from the Universidad de Buenos Aires. Mr. Murmis is a partner at Abelovich, Polano y Asociados / SC International. He worked for Harteneck, López y Cia./Coopers & Lybrand in the tax department. Mr. Murmi worked as an advisor to the Secretaría de Ingresos Públicos. Furthermore, he is a member of the supervisory committee of Futuros y Opciones S.A and Llao Llao Resorts S.A.

*Alicia Graciela Rigueira.* Mrs. Rigueira holds a degree in accounting from the University of Buenos Aires. She is a manager at Abelovich, Polano & Asociados/ SC International, an accounting firm in Argentina and former manager at Pricewaterhouse & Co. in Argentina. She is also a member of the Supervisory Committees of Inversora Bolívar S.A. and Baldovinos S.A.

*Silvia Cecilia De Feo.* Ms. De Feo holds a degree in accounting from the Universidad de Belgrano. She is a manager at Abelovich, Polano & Asociados/SC International, an accounting Firm in Argentina and former senior at PricewaterhouseCoopers in Argentina. She is also a member of the Supervisory Committees of Inversora Bolívar S.A. and Baldovinos S.A.

## **Compensation**

Argentine law provides that the compensation paid to all directors and syndics (including those directors who are also executive officers) in a fiscal year may not exceed 5.0% of net income for such year, if the company is not paying dividends in respect of such net income. Argentine law increases the annual limitation on director compensation to up to 25.0% of net income based on the amount of such dividends, if any are paid. The board of directors determines the compensation of directors who are also executive officers, with the affected directors abstaining. In the case of directors that perform duties at special commissions or perform administrative or technical tasks, the aforesaid limits may be exceeded if a Shareholders' Meeting so approves and such issue is included in the agenda and regulations of the CNV are complied. In any case, the compensation of all directors and members of the Supervisory Committee requires shareholder ratification at an ordinary meeting.

Pursuant to the bylaws, we may establish incentive compensation plans for directors that may include a profit sharing plan and a stock appreciation rights plan. Our board of directors and a shareholders' meeting have established an incentive compensation plan for executive officers, managers and directors who are members of the Executive Committee that took effect following the consummation of the Privatization (the "Management Plan"). The purpose of the plan is to provide incentives and rewards to those individuals largely responsible for our success and growth, to help us attract and retain such employees and to associate their interests with those of our shareholders. Under the Management Plan, participants are entitled to receive a payment based on the appreciation in the value of our Class D Shares pursuant to a formula set forth in the Management Plan. The Management Plan also includes a profit sharing plan pursuant to which participants receive specified varying percentages of our net profits based on our achieving specified return on equity targets. Participation in the Management Plan is subject to various terms and conditions including eligibility and vesting requirements. Payments pursuant to the Management Plan will be made through a related charge to income.

Under the stock appreciation rights plan, certain requirements must be fulfilled. Firstly, as of April 28, 1999, members of the Executive Committee must have been in charge for the complete term of two years. Secondly, managers must have been in their functions for one year counted as of (a) April 28, 1999 for personnel already hired by such date and (b) the date of incorporation of the Bank. In case of resignation or dismissal with cause, benefits will be lost. The Management Plan establishes the allocation of benefits in case of death, dismissal with no cause, retirement or incapacity. This allocation depends on the date the relationship with the Bank ceases. Thirdly, the

variation between the closing and the initial values of Class D Shares as defined in the Management Plan shall be positive.

In the event of a Change of Control, members of the Executive Committee and certain managers will be granted the stock appreciation right benefit until its ending on December 31, 2003 according to a function factor. In case the variation between the closing value and the initial value is not positive, there will be no right to receive any benefit. For the Management Plan, Change of Control means: (a) the acquisition by one or more persons, individually or associated, of shares, negotiable obligations, convertible negotiable obligations representing 15% or more of the capital stock; or (b) the execution of any agreement for the syndication of votes representing 15% or more of the Bank's capital stock; or (c) modification of the composition of the board of directors; or (d) when the Principal Shareholders lose for any reason the possibility of appointing the majority of the board of directors.

Members of the Executive Committee who have performed as such for the complete period of two years and managers employed for a minimum of three months, may be eligible for the profit sharing plan. In case of a Change of Control, directors who are members of the Executive Committee and certain managers will be granted a benefit equal to the total amount received by the participants of the Profit Sharing Plan for the three years prior to the year of the Change of Control.

An extension of the existing Management Plan has been approved by an ordinary shareholders meeting dated May 31, 2004 for a 5-year period as from January 1, 2004.

The aggregate amount of compensation that we paid to all directors during fiscal years 2003, 2004 and 2005 was Ps.2,624,826.61, Ps.2,504,355.74, and Ps.2,668,570.00, respectively. The aggregate amount of compensation that we paid to our senior management during fiscal years 2003, 2004 and 2005 was Ps.2,356,825.36, Ps.7,285,416.00 and Ps.8,853,289.00, respectively. The aggregate amount of compensation that we paid to the members of the supervisory committee during the fiscal years 2003, 2004 and 2005 was Ps.240,000, Ps.561,000 and Ps.542,880, respectively.

#### ***Audit Committee***

As of February 28, 2006, the following members comprise the Bank's audit committee, in accordance with the CNV's and Central Bank's regulations: Jorge M. Grouman (Director), Carlos B. Pisula (Director), Pablo D. Vergara del Carril (Director) and Ernesto S. Herscovich (Audit Manager). The current members of the audit committee were appointed by the Board of Directors on meetings held on December 1, 2005 and December 21, 2005.

Members of the audit committee shall hold their positions for a term of two years, provided their mandate as director does not expire before, and for maximum period of three years. The Audit Committee shall act in accordance with the dispositions contained in Communication "A" 2525 as amended. The Audit Committee shall gather periodically and at least once a month.

In accordance with Communication "A" 2525 the Audit Committee shall, among other responsibilities:

- Supervise the Bank's internal control systems through periodic evaluation.
- Contribute to the improvement of internal controls and be aware of the planning of the independent auditors.
- Review and approve the internal audit function and process.
- Consider the observations made by the Bank's independent auditors with respect to internal control.
- Review the results obtained by the Supervisory Committee.
- Maintain constant communication with the Superintendency of Financial and Exchange Institutions.
- Review the Bank's annual and quarterly financial statements and the corresponding reports delivered by the independent auditors.
- Periodically review the fulfillment of norms regarding the independence of the external auditors.

Due to the expiration of their tenure as members of the Audit Committee and as required pursuant to Central Bank regulations (Communication “A” 2525), Gabriel Reznik and Federico Bensadón resigned their positions on the Audit Committee and Pedro del Piero was elected as member thereof.

#### ***Audit Committee Created by Decree 677/01***

Section 15 of Decree No. 677/01 creates the audit committee for companies issuing public offerings of their stock. The audit committee shall be formed by three or more members of the board of directors, but not more than seven members, the majority of which shall be independent pursuant to the criteria established by Resolution 400 of the CNV.

The board of directors by a simple majority of votes shall determine the members of the audit committee and shall appoint those directors who have expertise in corporate administration, finance and accounting.

The main functions of the audit committee are to: a) give opinions on the independent auditors to be nominated; b) supervise the operation of the internal control and administrative-accounting systems with regard to the accuracy of public information; c) establish information policies with regard to hedging practices applied by the Bank; d) give opinions in cases of conflicts of interest; e) check the reasonability of fees and expenses for the issue of securities; f) verify the performance of behavior rules, if applicable; g) give opinions on transactions with related parties; h) analyze the performance of the external auditors and their independence; i) review the plans of the independent and internal auditors and evaluate their performance giving an opinion on occasion of the presentation of the annual financial statements (the opinion should include information regarding the invoiced fees for independent auditors and other special services); and j) publish a report regarding the fulfillment of the audit committee’s tasks.

The regulations regarding the audit committee are applicable in the fiscal years commencing from January 1, 2004 onwards. On May 22, 2003, our Audit Committee approved the draft of the regulations to which the audit committee will be subject effective as of January 1, 2004.

#### **Social and Institutional Matters Committee**

Clarisa D. Lifsic de Estol (Director)  
Eduardo S. Elsztain (Director)  
Edgardo Fornero (Director)

##### ***Duties***

- to define the policies of donations and subsidies for their approval by the Board of Directors;
- to approve cash donations for amounts up to Ps.100,000;
- to approve the donation of unused real property on our balance sheet;
- to grant subsidies for social and/or cultural purposes, not comprised in the provisions of section 13 of the Mortgage Bank Law;
- to propose the approval of donations and/or subsidies exceeding Ps.100,000 to the Board of Directors, and
- to take part in any matter relating to the Bank’s image or insertion in society.

#### **Committees Reporting to the Executive Committee:**

##### **(i) Finance Committee**

Clarisa D. Lifsic de Estol (Director)  
Jacobó Julio Dreizzen (Director)  
Jorge Miguel Grouman (Director)  
Carlos Bernardo Pisula (Director)

Gabriel Saidon (Finance Manager)

***Duties:***

- to control the liquidity and creditworthiness of the company;
- to define the policies for investments in liquid assets and take part in the management of financial assets and liabilities;
- to approve debt issuance and placement transactions within the framework and pursuant to the modalities conferred by the corporate shareholders meetings;
- to recommend the credit limits per product to domestic and international banks to be approved by the Credit Committee;
- to approve the purchase and sale of government and private securities and futures, derivatives and arbitration transactions with fixed and floating rate securities;
- to take part in the evaluation and approval of financial products; to fix, evaluate and control the financial risks of the different investment portfolios;
- to recommend bid and offered interest rates, to assign fund transfer costs;
- to fix, from time to time, the global quotas for the different credit lines, in accordance with the evolution of the financial planning;
- to approve the engagement of banks, rating agencies, law firms and auditors or due diligence services in respect of the issuance and placement of debt securities; and
- to take part in the purchase of treasury shares (pursuant to the guidelines set forth by the Board of Directors) and the Bank's debt securities.

**(ii) Nomination and Compensation Committee**

Clarisa D. Lifsic de Estol (Director)

Eduardo S. Elsztain (Director)

Saúl Zang (Director)

***Duties:***

- to evaluate and issue a decision in respect of the nominations of candidates for a director position to be elected by the Company's class "D" shareholders' meetings and to prepare a list thereof;
- to propose directors to serve in subsidiaries; and
- to propose the compensation of the members of the Board of Directors and of the Bank's and its subsidiaries' committees.

**(iii) Credit Committee**

Clarisa D. Lifsic de Estol (Director)

Jacobo Julio Dreizzen (Director)

Jorge Miguel Grouman (Director)

Carlos Bernardo Pisula (Director)

Ernesto Manuel Viñes (Director)

Gustavo Daniel Efkhonian (Alternate Director)

Flavia Matilde Gómez Beret (Risk and Delinquency Manager)

Miguel A. Sarria (Business Manager)

Gabriel Gustavo Saidón (Finance Manager)

Beat Kramer (Corporate Banking Manager)

***Duties:***

- to define the Risk policies of the different Individual, PyME and Corporate Credit lines pursuant to the different rules and regulations in force;
- to approve Corporate Credit lines financings for amounts up to Ps.2,500,000;
- to approve PyME Credit lines financing;
- to approve Individual Credit lines financings (\*) for amounts exceeding Ps.200,000 and up to Ps.1,000,000;
- to issue decisions in respect of Corporate Credit Lines financings for their consideration by the Executive Committee when their amount exceed those indicated in paragraph 2;
- to approve refinancing resolutions, grace periods, foreclosure on trusts, etc. upon proposal of the Corporate Business Area;
- to define provisioning policies;
- to delegate duties, with the approval level being determined at its discretion; and
- to define the policies to handle Delinquency and auctions.

---

(\*) Includes all the financings provided to the customer or economic group, if the financing exceeds the basic margin provided for by the Central Bank rules on credit classification, or exceeds 2.5% of BHSA's Computable Net Worth, regardless of the amount of the financing, the prior authorization of the Board of Directors shall be obtained (which decision shall be adopted by simple majority).

**(iv) Systems and Operations Committee**

Clarisa D. Lifsic de Estol (Director)  
Carlos D. Berruezo (Technological Infrastructure Manager)  
Aixa Manelli (Systems Development Manager)  
Gustavo Daniel Efkhianian (Controller Manager)

***Duties:***

- to define the Systems Area Policies pursuant to the guidelines set forth by the Board of Directors and the Argentine Central Bank's regulations;
- to define and approve the Systems' Annual Plan and the three-year Systems' Strategic Plan pursuant to the guidelines set forth by the Executive Committee and follow up the implementation thereof;
- to approve the rules and procedures of the Systems Area;
- to take part in any matter relating to investments in Systems pursuant to the prepared system plans and the particular needs as may arise;
- to define and operate the BHSA Contingency Plan;
- to give advise in respect of contracts relating to technology and operating outsourcing services; and
- to coordinate the operating and technological actions in order to assure the implementation and operation of the defined operating model.

## PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding ownership of our capital stock on February 28, 2006.

Shareholder	Class	Number of Shares	Percentage of Outstanding Shares	Number of Votes	Percentage of Votes
Argentine government / Banco de la Nación Argentina as trustee of the <i>Fondo Federal de Infraestructura Regional</i> Assistance trust, Ministry of Economy (1)	A	65,853,088	43.9%	65,853,088	22.8%
Banco Nación, as trustee of the PPP.....	B	7,500,000	5.0%	7,500,000	2.6%
Banco Nación, as trustee of the <i>Fondo Federal de Infraestructura Regional</i> Acceptance Trust .....	C	7,500,000	5.0%	7,500,000	2.6%
Option Trustee (2) .....	D	9,090,500	6.1%	27,271,500	9.5%
Principal Shareholders (3) .....	D	42,510,979	28.3%	127,532,937	44.2%
Argentine Pension Funds.....	D	7,198,394	4.8%	21,595,182	7.5%
Deutsche Bank(4) .....	D	7,110,000	4.7%	21,330,000	7.4%
Board of Directors(5) .....	D	970	0.0%	2,910	0.0%
Others.....	D	<u>3,236,069</u>	<u>2.2%</u>	<u>9,708,207</u>	<u>3.4%</u>
<b>Total .....</b>		<b>150,000,000</b>	<b>100.0%</b>	<b>288,293,824</b>	<b>100.0%</b>

- (1) Banco de la Nación Argentina as trustee of the *Fondo Federal de Infraestructura Regional* Assistance Trust holds 65,850,000 shares, while the remaining 3,088 shares belong to the Ministry of Economy.
- (2) The options exercise period expired on February 2, 2004. As of that date, 179,095 options equivalent to 17,909,500 ADSs or Class “D” Shares had been exercised. The Class “D” Shares or ADS relating to non-exercised options, which amount to 9,090,500 shall be maintained in the Trust until the disposal thereof pursuant to the instructions received from the Selling Shareholder. During such period the political rights attaching thereto shall be exercised by the Trustee of the *Fondo Federal de Infraestructura Regional* Assistance trust.
- (3) As of February 28, 2006, Ritelco S.A., Latin American Capital Partners II LP, IRSA Inversiones y Representaciones Sociedad Anónima, Inversiones Financieras del Sur S.A., IFIS Limited, Dolphin Fund PLC and Buenos Aires Trade & Finance Center S.A. held 7,500,000, 4,303,811, 7,500,000, 7,563,683, 7,500,000, 5,502,470 and 2,641,015 ADSs or Class D Shares, respectively, with a participation on Class D Shares of 10.85%, 6.22%, 10.85%, 10.94%, 10.85%, 7.88% and 3.82%, respectively.
- (4) Pursuant to our obligations under our debt negotiation process, whose exchange offer concluded in January 2004, we entered into an agreement with Deutsche Bank to hedge against the risk of appreciation of our stock. Under such agreement, Deutsche Bank purchased 71,100 options of the Bank in the market, becoming holder of 7,110,000 ADRs.
- (5) As of February 28, 2006, Mrs. Clarisa Diana Lifsic de Estol, Mr. Eduardo Sergio Elsztain and Mr. Saúl Zang, held 314, 85 and 571 Class D shares and/or ADRs, respectively. Such holdings represent in each case less than 1% of the Class D Shares currently outstanding.

### ***Voting Rights of Principal Shareholders***

Holders of the majority of Class D Shares are entitled to elect nine of the members of our board of directors. In addition, the Argentine government will continue to exercise significant influence over us. Under the Privatization law and our bylaws, so long as it holds at least one Class A Share, the Argentine government will have the right to elect at least two regular directors and two alternates to the board of directors. See “Management—Board of Directors.” Principal Shareholders do not have different voting rights within the Class. The bylaws, with certain exceptions, also require the prior approval of the Argentine government, as the holder of Class A Shares, of any person’s (including its affiliates) direct or indirect acquisition, by stock purchase, merger or otherwise, of Class D Shares or securities convertible into Class D Shares which, together with prior Class D Shares held by the acquirer, represent 30.0% or more of our capital stock. The approval of the holders of Class A Shares is also required to approve certain changes to us, including among others, spin-offs, the transfer of a substantial part of our loan portfolio to a third party and a change in our corporate purpose.

On February 28, 2006, the Principal Shareholders, as a group and after the exercise of the Options, owned approximately 61.3% of the outstanding Class D Shares. See “Business—History—Recent History and Current Ownership Structure”.

So long as the Principal Shareholders vote their Class D Shares together, they have sufficient voting power to elect a majority of our board of directors and to prevail in all matters to be decided by a class vote of holders of Class D Shares.

Mr. Eduardo Elsztain, who is the Chairman of IRSA, owns the majority of a company that manages Dolphin Fund PLC. IRSA Inversiones y Representaciones Sociedad Anónima is principally engaged in the development of real estate and related businesses in Argentina and Brazil.

The Argentine government has no limitation to dispose of any of the Class A Shares, except for one Class A Share, which must always be kept by the Argentine government pursuant to Section 20 of Law 24,855. If as a result of a sale of Class A Shares by the Argentine government, the Class A Shares represents less than 42% of the Bank's capital stock, the Class D Shares will lose the triple vote. In this event, the Class D Shares will lose its current majority on the General Shareholders' Meetings, and depending on the number of shares held by the Argentine government it may have sufficient voting power to prevail at general shareholders' meetings except for certain decisions that require qualified majorities.

The following table sets forth information regarding holdings of our capital stock in Argentina and abroad on February 28, 2006.

<b>At February 28, 2006</b>					
<b>Class</b>	<b>Number of Shares</b>	<b>Percentage of Shares registered in Argentina</b>	<b>Percentage of Shares registered outside Argentina</b>	<b>Percentage of Shares in Argentina</b>	<b>Percentage of Shares outside Argentina</b>
A	65,853,088	43.9%	—	43.9%	—
B	7,500,000	5.0%	—	5.0%	—
C	7,500,000	5.0%	—	5.0%	—
D	<u>69,146,912</u>	<u>27.8%</u>	<u>18.4%</u>	<u>27.8%</u>	<u>18.4%</u>
Total	<u>150,000,000</u>	<u>81.6%</u>	<u>18.4%</u>	<u>81.6%</u>	<u>18.4%</u>

We have no knowledge of any agreement that, if effective, may result in a change of control.

## ARGENTINE BANKING SYSTEM AND REGULATION

*The following is a summary of certain matters relating to the Argentine financial system, including provisions of Argentine law and regulations applicable to financial institutions in Argentina. This summary is not intended to constitute a complete analysis of all laws and regulations applicable to financial institutions in Argentina. Prospective investors in the notes are advised to consult their legal advisors for a more detailed analysis thereof.*

*This information should be read in conjunction with, and is qualified in its entirety by reference to, “Risk Factors” in this offering memorandum.*

### **The Argentine Banking System**

As of December 2005, the Argentine financial system consisted of 89 financial institutions (banks, finance companies and credit unions) 76 of which were domestic or foreign owned private institutions, and 13 of which were Argentine government-owned banks.

As of December 2005, out of the 76 private institutions, 58 were private nationally or foreign-owned banks;

- 34 were privately-owned, locally-based banks (i.e., *sociedades anónimas*);
- 23 were foreign-owned banks (i.e., local branches or subsidiaries of foreign banks); and
- 1 were privately owned cooperative banks (*bancos cooperativos limitados*).

The ten largest privately owned commercial banks, in terms of total assets, as of December 2005, were: Banco de Galicia y Buenos Aires S.A.; BBVA Banco Francés S.A.; Banco Río de la Plata S.A.; Banco Hipotecario S.A., BankBoston National Association; Banco Macro Bausud S.A.; Citibank N.A.; HSBC Bank Argentina S.A.; Banco Credicoop Coop. Ltda. and Nuevo Banco de Santa Fé S.A. According to information published by the Central Bank as of December 2005, privately owned commercial banks accounted for approximately 55.6% of deposits and approximately 69.4% of loans in the Argentine financial system. The largest foreign banks operating in Argentina at such date, according to their level of deposits, were BBV Banco Francés S.A.; Banco Río de la Plata S.A.; BankBoston N.A.; Citibank N.A.; HSBC Bank; and Banca Nazionale del Lavoro. Foreign banks compete under the same regulatory conditions as Argentine banks. Cooperative banks are active principally in consumer banking, with a special emphasis on the retail segment of the market. As of December 2005, financial entities (other than banks) accounted for approximately 0.2% of deposits and 1.8% of loans in the Argentine financial system.

The largest Argentine government-owned banks, in terms of total assets, were Banco de la Nación Argentina and Banco de la Provincia de Buenos Aires. Under the provisions of Argentine Law N° 21,526, as amended (the “Financial Institutions Law”), public banks have comparable rights and obligations as private banks, except that public banks handle public revenues and promote regional development and certain public banks have preferential tax treatment. The bylaws of some Argentine government-owned banks provide that the governments that own them (national and provincial) guarantee their commitments. Under current law, Banco de la Provincia de Buenos Aires will not be subject to taxes, levies or contributions that the Argentine government may impose. According to information published by the Central Bank, as of December 2005, government-owned commercial banks and commercial banks in which the Argentine government had a majority equity interest accounted for approximately 44.4% of deposits and approximately 30.5% of loans in the Argentine financial system.

Consolidation was a dominant theme in the banking sector during the effectiveness of Convertibility. The total number of banks declined from 214 in 1991 to 82 on December 31, 2002. Control of many of the largest Argentine privately owned commercial banks has been transferred to foreign banks: in October 1996, Banco Francés to Banco Bilbao Vizcaya S.A., a Spanish bank; in May 1997, Banco Crédito Argentino S.A. to Banco Bilbao Vizcaya S.A., a Spanish bank; in May 1997, Banco Roberts S.A. to HSBC Holdings PLC’s Hong Kong & Shanghai Banking Corp., a British bank; in June 1997, Banco Quilmes S.A. to Bank of Nova Scotia, a Canadian bank; and in May 1997, Banco Río to Santander Investment, a Spanish bank. In addition, in September 1997, BankBoston agreed to buy the retail banking business of Deutsche Bank Argentina. On October 13, 1998, the Central Bank ordered the suspension of Banco Mayo Coop. Ltd. Citibank acquired Banco Mayo’s assets. Banco Itaú, a Brazilian institution, acquired Banco del Buen Ayre S.A. At the end of 1999, Banco Río acquired Banco Tornquist and Banco Tornquist



merged into Banco Río. In 2000, Banco Sudameris Argentina S.A. acquired Banco Caja de Ahorro S.A., and Banco Caja de Ahorro S.A. merged into Banco Sudameris Argentina S.A.

With the abandonment of the Convertibility system and the crisis experienced by the financial system, there was a significant reduction in the number of entities with a reason to discontinue their business as well as in mergers and acquisitions. A certain trend of foreign banks to transfer the control of their establishments in Argentina to national private banks is also made evident. In 2002, the Central Bank suspended: Scotiabank Quilmes S.A. (in connection with which the Central Bank approved a transfer of certain assets and liabilities to Banco Comafi S.A. and Banco Bansud S.A.), in addition Banco General de Negocios S.A., Banco Velox S.A., Banco do Sao Paulo S.A. and Kookmin Bank, Buenos Aires Branch as well as the banks controlled by Credit Agricole, namely Banco del Suquia S.A., Bisel S.A., and BERSA S.A., which are currently under the control of Banco Nación have discontinued their business until they are offered to private owners through a bidding process.

During 2003, the Central Bank revoked the license to the following banks: Banco de la Edificadora de Olavarría S.A.; Banco Velox S.A.; Banco Municipal de la Plata and Banco de Balcarce S.A. In addition, BBV Banco Frances S.A. acquired Banco Exterior de America (Buenos Aires Branch) and Banco Sudameris S.A. has merged with Banco Patagonia S.A. During 2004 the Central Bank revoked the banking licenses of Banco BEAL and Banco Urquijo S.A. approved the merger of Banco Macro S.A. with Banco Bansud under the name of Banco Macro Bansud S.A. and authorized Banco Patagonia Sudameris S.A. to acquire the assets and liabilities of the Argentine Branch of Lloyds TSB Bank plc.

Due to the severe crisis, which affects Argentina and specifically the banking system and the permanent issuance of new regulations and occurrence of new developments in connection with the Argentine financial system, we cannot assure you that the information mentioned above has not become outdated as of the date of this offering memorandum.

## **Argentine Banking Regulation**

### ***General***

Since 1977, the Financial Institutions Law has primarily regulated banking activities in Argentina, which empowers the Central Bank to regulate and supervise the Argentine banking system. In practice, the Central Bank has vested the *Superintendencia de Entidades Financieras y Cambiarias* (Superintendency of Financial and Exchange Institutions, hereinafter referred to as the “Financial Superintendency”), with most of the Central Bank’s supervisory powers. In this section, unless the context otherwise requires, references to the Central Bank shall be understood as references to the Central Bank acting through the Financial Superintendency. The Financial Institutions Law confers numerous powers on the Central Bank, including the ability to grant and revoke licenses of financial institutions, to authorize the establishment of branches in and outside Argentina, to approve bank mergers, certain capital increases and certain transfers of stock, to fix minimum capital, liquidity and solvency requirements, to grant certain credit facilities to financial institutions in cases of temporary liquidity problems and to promulgate other regulations that further the intent of the Financial Institutions Law.

Argentine Law No. 25,562 dated February 6, 2002 introduced substantial amendments to the Central Bank’s charter which, inter alia, released certain restrictions on the Central Bank’s ability to act as lender of last resort, allowed the Central Bank to make temporary advance payments to the federal government for up to 10% of the cash funds obtained during the preceding twelve months, which before could only be effected by purchasing at market prices negotiable securities issued by the National Treasury, and released the restriction whereby up to one-third of the freely available reserves could be composed of public securities considered at market values.

During 2003 two laws which amended certain provisions of the Central Bank Charter and of the Argentine Financial Institutions Law were enacted. Law No. 25,780, published on September 8, 2003 amended Title III - Chapter IV -- “Restructuring of the institution to safeguard credits and deposits” and Title VII - Chapter II “Judicial Liquidation” of the Financial Institutions Law and Chapters I, III, V, VIII and X of the Central Bank Charter. In general, these amendments aimed at granting more functional independence to the Central Bank, reinforcing its powers in the restructuring of institutions, and providing certain immunity to officers of the Central Bank and the Financial Superintendency.

In turn, Law N 25,782 published on October 31, 2003 amended the powers of the Central Bank to regulate the Financial Institutions Law (section 4) by establishing that the rules issued by it should take into account the kind and legal nature of the institutions, the location of their offices, their operating volume and the economic and social features of the targeted segments. In addition, it changed the conditions and operating modalities under which credit unions shall function.

### ***Certain developments in the Argentine banking system***

During the liberalization of the economy in the 1990s, the government implemented significant reforms to the financial sector. These reforms included the following:

- privatization of most state-owned banks and several provincial banks;
- the opening of the financial system to foreign investment; and
- the establishment of minimum capital and liquidity requirements.

In early 1995, due to a combination of the events following the devaluation of the Mexican currency in 1994 and uncertainty concerning the outcome of the May 1995 presidential elections in Argentina, local and foreign investors withdrew approximately US\$8.6 billion from the Argentine financial system. This outflow of bank deposits led to sharp increases in interest rates and interbank lending rates. In response to the massive outflow of deposits and the tightening of liquidity, the Central Bank took several remedial measures, including the following:

- the creation of two fiduciary funds, one designed to provide liquidity to and further the privatization of provincial banks, the other to finance the restructuring or merger of troubled banks; and
- the adoption of amendments to the Financial Institutions Law and the Central Bank's charter to improve the Central Bank's ability to restructure banks in financial distress by disposing of the assets and liabilities of a troubled bank and transferring them to a financially-sound bank and liquidating the non-performing assets.

### ***Supervision***

As supervisor of the system, the Central Bank requires financial institutions to submit information on a daily, monthly, quarterly, semi-annual and annual basis. These reports, which include balance sheets and income statements, information relating to reserve funds, use of deposits, indications of portfolio quality (including details on debtors and any loan-loss provisions established) and other pertinent information, allow the Central Bank to monitor the financial institutions' business practices. If the Central Bank's rules are breached, it may impose various sanctions depending on the gravity of the violation. These sanctions range from calling attention to the infraction to the imposition of fines or even the revocation of the institution's operating license. Moreover, non-compliance with certain rules may result in the obligatory presentation to the Central Bank of specific adequacy or regularization plans. The Central Bank must approve these plans in order for the financial institution to remain in business.

Additionally, the Central Bank is authorized to conduct on-site inspections in order to confirm the accuracy of information it receives from financial institutions.

Financial institutions have been subject to the supervision of the Central Bank on a consolidated basis since 1994. In order to exercise supervision, the Central Bank requires that financial institutions file periodic consolidated financial statements.

### ***Permitted Activities and Investments***

The Financial Institutions Law provides for the following types of financial institutions: commercial banks, investment banks, mortgage banks, financial companies, savings and loan companies (*sociedades de ahorro y préstamo para la vivienda u otros inmuebles*) and credit unions (*cajas de crédito*). Except for commercial banks, which are authorized to conduct all financial activities and services that are not specifically prohibited by law or by regulations of the Central Bank, the activities that may be carried out by Argentine financial institutions are set forth

in the Financial Institutions Law and related Central Bank regulations. Some of the activities which are in general permitted for commercial banks include the ability to:

- make and receive loans;
- receive deposits from the public in both local and foreign currency;
- guarantee clients' debts;
- underwrite, acquire, place or negotiate stock or debt securities, including government securities, in the over-the-counter market (subject to the prior approval of the CNV);
- conduct transactions in foreign currency;
- act as fiduciary;
- issue credit cards;
- act, subject to certain conditions, as brokers in real estate transactions; and
- conduct trade finance transactions.

In addition, the Financial Institutions Law prohibits commercial banks from, among other things, owning commercial, industrial, agricultural and other types of enterprises except in the case of activities that the Central Bank specifically allows pursuant to regulations issued for all financial institutions. Until December 31, 2004, financial institutions are authorized to receive, as payment for amounts owed to them, shares of companies that do not perform activities related to the financial sector provided the aggregate amount of such shares do not represent more than (i) 20% of the capital stock of such companies, and (ii) 40% of the Argentine regulatory capital of such financial institution.

In accordance with the Central Bank's regulations, the total amount of the investments of a financial institution in the capital stock of third parties, including its participation in mutual funds, may not exceed 50% of regulatory capital of such entity. The total amount of the investments on the assets described below is limited to 15% of regulatory capital of such entity. Such assets are:

- shares not listed on any stock exchange, excluding: a) shares of companies that provide complementary services to the financial sector and b) any stock participation that it is necessary to obtain the provision of public services; and
- shares listed on a stock exchange and participations in mutual funds that are not taken into account for determining the capital requirements in accordance with the market risk that is mentioned below,

In addition, an equity investment of a financial institution in another company that does not provide services complementary to the services provided by the commercial bank may not exceed 12.5% of such company's net worth or 12.5% of its voting shares.

The Central Bank regulations establish several requirements for the establishment of local or foreign branches, including authorization by the Central Bank. As of April 24, 1998, the establishment of "mini branches" and "permanent promotion stands" requires only notification to the Central Bank. Mini branches are permitted to engage only in minor operations (i.e., payment of pensions, collection of loan forms, payment of loans up to Ps.2,000, collections of public services and taxes and exchange services). A promotion stand may be established to engage only in the receipt and delivery of forms related to services provided by a financial institution and is not permitted to deal with money and securities. As from July 2005, in order to authorize the opening of new branches, the Central Bank will consider, in addition to the general requirements, the characteristics of each project, analyzing issues such as its consistency with its business plan filed with the Central Bank in accordance with the effective conditions in that matter, and with Central Bank policies, towards a greater penetration of banking services, in particular in those regions with little or insufficient financial services.

### ***Operations and activities that banks are not permitted to perform***

The Financial Institutions Law prohibits commercial banks from: (a) creating liens on their assets without prior approval from the Central Bank, (b) accepting their own shares as security, and (c) conducting transactions with their own directors or executive officers and with companies or persons related to any of them on terms that are not arms-length.

Notwithstanding the foregoing, banks may own shares in other financial institutions with the prior approval of the Central Bank, and in public services companies, if necessary, to obtain those services.

### ***Legal Reserve***

The Financial Institutions Law requires that financial institutions allocate each year to a legal reserve a percentage of net income set by the Central Bank which is currently 20.0%. Such reserve can only be used during periods in which a financial institution has incurred losses and has exhausted all other reserves.

### ***Non-liquid Assets***

Since January 2004, non-liquid assets (computed on the basis of their closing balance at the end of each month and net of those assets that are deducted to compute the regulatory capital, such as equity investments in financial institutions and goodwill) plus the financings granted to a financial institution's related persons (computed on the basis of the highest balance during each month for each customer) cannot exceed 100% of the Argentine regulatory capital of such financial institution.

Non-liquid assets consist of miscellaneous receivables, bank property and equipment, miscellaneous assets, assets securing obligations, except for swap, futures and derivative transactions, intangible assets and equity investments in unlisted companies or listed shares if the holding exceeds 2.5% of the issuing company's equity.

### ***Minimum Reserve Requirements***

Financial institutions are required to maintain minimum cash reserves in respect of demand and term deposits. The requirement applies over the monthly average of daily balances of deposits and they are to be recorded separately depending on the currency in which they are denominated.

In addition, they are required to maintain cash reserves in respect of 100% of the deficiencies in the application of resources in foreign currency (see "Lending capacity of resources denominated in foreign currency").

For purposes of constitution such minimum reserve requirements, the following assets are considered: cash in the treasury of the financial institution, credit balances under current accounts with the Central Bank, money in transit or with entities transporting values, guarantee deposits in favor of settlement institutions and other minor sums.

According to Communication "A" 4449 dated as of December 1, 2005, as amended by communication "A" 4509 issued on March 14, 2006, the minimum cash rate requirements to be complied with by financial institutions in respect of their main demand and term deposit obligations are the following:

Checking accounts deposits	17%
Savings accounts deposits in pesos	17%
Savings accounts deposits in foreign currencies	30%
Sights deposits and other deposits in pesos	17%
Sights deposits and other deposits in foreign currencies	30%

Time deposits, other term obligations and debt notes in pesos (pursuant to its residual term):

Up to 29 days	14%
From 30 to 59 days	11%

From 60 to 89 days	7%
From 90 to 179 days	2%
From 180 to 365 days	1%
More than 365 days	0%

Time deposits, other term obligations and debt notes in foreign currencies (pursuant to its residual term):

Up to 29 days	35%
From 30 to 59 days	28%
From 60 to 89 days	20%
From 90 to 179 days	10%
From 180 to 365 days	6%
More than 365 days	0%

### ***Lending capacity of resources denominated in foreign currency***

Since February 2002, the Central Bank issued more restrictive regulations in connection with the lending capacity of foreign currency denominated deposits (including time deposits denominated in US Dollars but payable in pesos).

Regulations currently in force (Communication “A” 3528) state that such lending capacity will be an amount equivalent to all deposits denominated in foreign currency plus the amount of the inter-banking loans received by the financial institution, less the minimum reserve requirement established on deposits.

The resulting lending capacity shall be applied to any of the following:

- Pre-financing and financing of exports to be made directly or through principals or other brokers;
- Financing to producers or processors of goods, provided that they have a firm agreement with an exporter for the sale of such goods at a price fixed in foreign currency and that the goods are fungible and regularly quoted in foreign currencies in international or national markets of easy public access;
- Financing to producers of goods to be exported, as final products or as part of other goods, by third-parties purchasers, provided that such transactions are secured or collateralized in foreign currency by the third-party purchasers;
- Financing working capital and/or the acquisition of goods, including temporary imports of goods, for the production of merchandise for export (Communication “A” 4015);
- Debt securities or participation certificates issued by financial trusts –including other collection rights specifically recognized in the trust agreement to be entered into under the Banco Interamericano de Desarrollo (Inter-American Development Bank) “BID N° 1192/OC-AR” Loan – whose underlying assets are loans for the financing and refinancing of exports;
- Debt securities in foreign currency or participation certificates issued by financial trusts publicly offered and authorized by the CNV, whose underlying assets are securities guaranteed by reciprocal guaranty corporations (*sociedades de garantía recíproca*), purchased by the trustee to finance the operations mentioned in 1) to 3) above;
- Other Financings included under the Banco Interamericano de Desarrollo (Inter-American Development Bank) “BID N° 1192/OC-AR” Loan program, as long as those financings does not exceed 10% of the lending capacity;
- Interbank loans and US dollar denominated Central Bank securities; and

- Financing the commercial portfolio or consumer loans of a commercial nature that are, in each case, destined for the importation of capital assets that increase production of goods for domestic consumption (Communication “A” 4453).

The amount of the unused lending capacity in foreign currency shall be subject to a minimum liquidity requirement of 100%. In case the deficiency arises from the placement of LEBACs, the financial institution shall pay the Central Bank an amount equivalent to twice the annual interest rate resulting from the last bidding of LEBACs made by the Central Bank or twice LIBOR for 30 days.

### ***Reporting Requirements on Liquidity Position***

In order to complement the regulations designed to limit the liquidity risk assumed by financial institutions in Argentina, those institutions are required to prepare for the Central Bank monthly reports on cash-flows detailing the following: (1) contractual cash-flow of assets and liabilities, (2) projected cash-flow setting forth movements in assets and liabilities during the prior three months, (3) projected cash-flow assuming an illiquidity scenario and (4) projected cash-flow assuming a systemic illiquidity scenario (both with and without compliance with reserve requirements). Such reports have been temporarily suspended by implementation of Communication “A” 3465 until further notice. Financial institutions are further required to adopt management and control policies to assure the availability of reasonable levels of liquidity in order to effectively manage the different potential scenarios that may affect deposits and other financial obligations. Such policies are required to establish procedures to evaluate and sufficiently anticipate the liquidity of the institutions in the context of the market so as to revise projections, adopt measures to eliminate liquidity problems and obtain funds on market terms sufficient to maintain a prudent level of assets over the long term. Such policies are also required to address: (1) the concentration of assets and liabilities in particular customers, (2) the overall economic situation, probable trends and the impact on available credit, and (3) the ability to obtain funds through the sale of public debt instruments and/or liquid assets. Furthermore, Central Bank regulations require financial institutions to establish a “daily tracking” of its liquidity and of the market, calling for the participation of and coordination with the highest level manager of the institution. Additionally, one member of the board of directors of the financial institution must be appointed to be informed at least weekly of the changes in the liquidity condition of the institutions and the market which may require new strategies to protect the liquidity of the institutions.

### ***Regulatory Capital***

The minimum capital requirement that financial entities must comply with on the last day of each month is equal to the greater value which results from the comparison between the basic requirement and the total amount of the requirements provided for credit risks and interest rate, which are based on the methodology proposed in 1988 by the Basel Committee on Banking Supervision. In 1995, these guidelines were extended to cover market risks. In October 1998, the Central Bank established an additional minimum capital requirement, based on a bank’s interest-rate gaps, effective July 1, 1999.

Through Communication “A” 3959 dated June 2, 2003 the Central Bank established minimum capital requirements for financial institutions with the following key provisions:

- An 8% requirement on risk-weighted assets, consistent with international standards set by the Basle Committee;
- Equal percentage requirements for exposure of financial institutions to the private and public sectors;
- Elimination of the requirement that capital increase as a function of interest rates on loans;
- Introduction of a requirement established to cover the risk inherent in mismatches between the rate of Inflation and market interest rates;
- Capital adequacy requirements to cover market and interest-rate risks, designed to incorporate the dollar as well as adjustments by the CER;
- The increase or decrease of the capital requirement depending on the rating granted to each institution by the Financial Superintendency was discontinued; and

- Adjustment risk weightings to take into account, among others, the changes introduced in late March 2003 regarding the treatment of public-sector assets.

On July 25, 2003, the Central Bank complemented the regime specified above, determining that financial institutions must verify compliance with the norms regarding minimum capitals requirements commencing January 2004. In accordance with the abovementioned, as of the date of this offering memorandum, the Bank complies with the minimum capital requirements currently required by the Central Bank.

Recently, the Central Bank decided to amend, with effects as from July 1, 2005, the minimum basic capital requirements, implementing a category system according to the kind of entity (bank, financial entity) and the city or jurisdiction of Argentina where is established. For those new banks that wish to be established in the city of Buenos Aires, the requirement was increased from Ps.15 million to Ps.25 million, nevertheless such amount is lower for other kinds of entities and the remaining jurisdictions.

The corresponding jurisdictions for each category are as follows:

<b><u>Category</u></b>	<b><u>Jurisdiction</u></b>
<b>I</b>	City of Buenos Aires
<b>II</b>	Cities of Bahia Blanca (including the locality of General Cerri), Mar del Plata (including the locality of Batan), Neuquen (including the locality of Plottier) and Rio Cuarto. Great Buenos Aires, Great Cordoba, Great Mendoza and Great Rosario. Provinces of Chubut and Tierra del Fuego.
<b>III</b>	Cities of Corrientes, Salta, Santiago del Estero (including the locality of La Banda) and Posadas. Great Resistencia, Great San Juan and Great Tucuman (including the locality of Tafi Viejo). Provinces of Catamarca, Entre Rios, La Pampa, La Rioja, Rio Negro, San Luis and Santa Cruz. Rest of the following provinces: Buenos Aires, Cordoba, Mendoza, Neuquen and Santa Fe.
<b>IV</b>	The rest of Argentina.

In accordance with the category and kind of entity, the basic capital requirements will be as follows:

<b><u>Category</u></b>	<b><u>Banks</u> (in million of pesos)</b>	<b><u>Remaining entities</u><sup>(*)</sup></b>
<b>I</b>	25	10
<b>II</b>	14	8
<b>III</b>	12.5	6.5
<b>IV</b>	10	5

(\*) Except Credit Entities

### ***Ratings***

The Central Bank requires that financial institutions be rated by at least one of the rating agencies registered with the Central Bank. Local branches of foreign financial institutions, or local banks whose deposits or

other financial obligations are guaranteed by foreign banks, may alternatively provide at least two rating evaluations issued by an international rating agency approved by the Central Bank, with respect to the parent foreign financial institution of the local branch, and with respect to the guarantor foreign bank. Ratings must be obtained on a three-month basis and must evaluate the relevant financial institution in order to determine the repayment probability. The factors analyzed include, among others, each institution's liquidity, capitalization, management, profitability and market indicators of credit quality and asset quality. The Central Bank outlined a series of situations in which the rating agencies or their employees will be ineligible to carry out a rating process (e.g., when both the rating agency and the financial institution have common employees). The primary objective of this requirement is to obtain an independent opinion as to the capacity of the relevant financial institution to repay principal and interest accrued in connection with any financial transaction entered into by it. Failure to maintain ratings as required leads to penalties being applied, ranging from fines to the revocation of the institution's banking license.

On May 7, 2002, the Central Bank issued Communication "A" 3601, suspending the application of rules on "Evaluation of Financial Institutions". So long as such suspension is maintained financial institutions shall be required to obtain a risk rating from at least one risk rating agency in order to receive deposits from Retirement and Pension Fund Managers or to give assets as guarantee for foreign credit lines, futures, options or derivative transactions and reverse repurchase agreements. For such purpose, the risk-rating agency shall proceed to its evaluation in accordance with its own methodology.

### ***Valuation of Government Securities***

As of March 31, 2003, holdings of domestic public securities not subject to minimum capital requirements in respect of market risks and the loans and Guaranteed Bonds issued by the Argentine government, must be accounted for at the lowest of its current or technical value. Current value is computed by applying increasing discount rates to the cash flow of such financial instruments, pursuant to a schedule set forth by the Central Bank which, in June 2008, will be required to correlate with the market rate. BODENs received by financial institutions as compensation for the asymmetric pesification of their assets and liabilities (sections 28 and 29 of Decree 905/02) are exempted from this valuation criterion and may be recorded at their technical value.

In December 2004 and by reason of the external debt restructuring implemented by the Argentine government, the Central Bank issued Communication "A" 4270 establishing the criterion for the valuation of the securities to be received by the financial institutions in exchange for the defaulted debt. In this respect, it stated that the "GDP-linked negotiable Securities" and "Discount bonds" to be received may be recorded at the lowest of: (i) the accounting value of the instrument delivered in the exchange (net of the amounts recorded in regularization accounts and after deduction - if applicable - of the payments received for the implementation of the "Brady - Par and Discount" bonds guarantees) or (ii) the amount arising from the summation of the nominal cash flow to maturity, resulting from the terms and conditions of the bonds so received, without including estimates of future CER evolution - if the bond has been issued in pesos - or expected yield based on GDP growth. When the aforementioned amount is lower than the summation of the accounting values of the exchanged instruments, the difference shall be charged to income. Such valuation shall reduce the amount of the services to be received and shall not take into account accrued interest or adjustments in the computation thereof. If the institution elects to record such instruments at their market value, such option shall be deemed to be final.

### ***Lending Limits***

The amount of equity participation and credit, including guarantees granted, that a financial institution may have or grant to any particular client at any time is limited based on the institution's Argentine regulatory capital on the last day of the immediately preceding month and on the client's computable net worth. According to Central Bank rules, a financial institution may not lend or otherwise provide credit assistance to (referred to herein as "financial assistance") or invest in the capital stock of a single non-related client of the private sector in amounts in excess of 15.0% of such financial institution's Argentine regulatory capital (25.0% for loans with certain senior guarantees) or 100.0% of such client's computable net worth, provided that the financial institution may grant additional financial assistance to such client up to an amount equal to 200.0% of such client's computable net worth as long as such additional assistance does not exceed 2.5% of the financial institution's Argentine regulatory capital. The financial assistance granted to financial institutions and foreign banks rated as "investment grade" cannot exceed 25% of the Argentine regulatory capital of such institution. The limit for foreign banks not rated as "investment grade" is 5%. The financial assistance to the federal government sector, including the federal



government bonds being held, cannot exceed the 50.0% of the financial institution's Argentine regulatory capital. The total amount of the financial assistance granted to the federal, provincial and municipal government sector cannot exceed 75.0% of the financial institution's Argentine regulatory capital. Any excess from operations existing as of March 31, 2003 or arising from the receipt of the compensatory BODEN or other bonds received pursuant to the provisions of the Public Emergency and Reformation of the Foreign Exchange System Law No. 25,561, is not considered a default.

The aggregate amount of relevant transactions with affiliated companies or individuals may not exceed at any time the limits of the financial institution net worth as of the last day of the month prior to the month of calculation, according to the following general rules:

- in the case of local financial institutions which transactions are subject to consolidation by the lender or borrower, when the entity receiving financial assistance (i) has received rating grade 1 by the Financial Superintendency, the financial institution can provide assistance for an amount up to 100% of its computable net worth; or (ii) has received rating grade 2 by the Financial Superintendency, *general* financial assistance can be provided for an amount up to 10% of the financial institution's computable net worth; and *additional* assistance for an amount up to 90% of said computable net worth as long as loans and other credit facilities mature within 180 days;
- in the case of local financial institutions not included in (I) above, the financial institution can provide assistance for an amount up to 10% of its computable net worth; and
- in the case of other related local companies that exclusively provide complimentary services to the activity performed by the financial institution, as well as related foreign banks rated "investment grade", may receive assistance for an amount up to 10% of the computable net worth of the financial institution which grants assistance.

On the contrary, if the financial institution has a rating of 4 or 5, the financial assistance to a related person or company cannot be granted, except in certain particular situations.

Finally, the total, non-excluded amount of financial assistance provided to and the shareholder participation in the related persons and companies by a financial institution cannot exceed 20.0% of the institution's Argentine regulatory capital, except when the applicable limit is 100.0%.

Under Central Bank regulations, a person is "related" to a financial institution (and thus part of the same "economic group"):

- if the financial institution controls, is controlled by, or is under common control with, such person;
- if the financial institution or the person that controls the financial institution and such person have common directors to the extent such directors, voting together, will constitute a simple majority of each board; or
- in certain exceptional cases, if such person has a relationship with the financial institution, or with the person controlling such financial institution, that might result in economic damage to such financial institution, as determined by the board of directors of the Central Bank.

In turn, control by one person of another is defined under such regulations as:

- holding or controlling, directly or indirectly, 25.0% or more of the voting stock of the other person;
- having held 50% or more of the voting stock of the other person at the time of the last election of directors;
- holding, directly or indirectly, any other kind of participation in the other person so as to be able to prevail in its shareholders' or board of directors meetings; or

- when the board of directors of the Central Bank determines that a person is exercising a controlling influence, directly or indirectly, in the direction or policies of another person.

The regulations contain several non-exclusive factors to be used in determining the existence of such controlling influence, including, among others:

- the holding of a sufficient amount of the other person's capital stock as to exercise influence over the approval of such person's financial statements and payment of dividends;
- representation on the other person's board of directors;
- significant transactions between both persons;
- transfers of directors or senior officers between both persons;
- technical and administrative subordination by one person to the other; and
- participation in the creation of policies of the financial institution.

Notwithstanding the limitations described above, the amount of all nonexcluded financial assistance to and equity participations in each client (related or not) as to which such assistance and participation exceeds 10.0% of a financial institution's Argentine regulatory capital may not exceed, in the aggregate, three or five times such financial institution's Argentine regulatory capital, including financial assistance to and equity participations in local financial institutions, respectively.

#### ***Approval of Significant Acquisitions***

The Financial Institutions Law and the Central Bank regulations require that, with respect to financial entities, the Central Bank approve in advance certain acquisitions of shares or transfers of voting power ("Significant Acquisitions"). A Significant Acquisition may be:

- a transfer of shares;
- a transaction likely to result in the transfer of shares; or
- a transaction having the effect of giving the voting rights attached to shares to a person other than the owner of those shares that is likely to alter the structure of the shareholders' groups within the financial entity or involves the transfer of 5.0% or more of the capital stock or voting power, whether acquired in a single transaction or through a series of transactions within a six-month period.

The Central Bank must also provide prior approval of the acquisition of shares, if such transaction constitutes a Significant Acquisition.

The approval of Significant Acquisitions by the Central Bank requires that the entity whose shares are to be acquired submit to the Financial Superintendency certain documentation, including among others:

- a statement from the board of directors or members of the audit committee describing the expected changes in shareholders' ownership;
- the purchase price, class of stock and payment conditions;
- copies of the prospective purchaser's bylaws and certificate of incorporation;
- copies of the audited financial statements of the prospective purchaser for the last two fiscal years;
- an auditors' certificate as to the existence and sufficiency of funds to purchase the shares; and
- the identities of the members of the board of directors, audit committee and surveillance committee of the prospective purchaser and shareholders.

### ***Loan Loss Reserves***

The Central Bank requires financial institutions to establish loss reserves in respect of all loans, guarantees and other extensions of credit granted by such institutions, the amount of which depends on the category in which the obligors thereunder are classified. Under Central Bank regulations, a financial institution may elect either to establish loan loss reserves or to allocate existing loan loss reserves which, based on such bank's assessment of the risk underlying its portfolio, would otherwise be available for reversal.

### ***Foreign Deposits and Foreign Exchange***

Due to the deterioration of the economic and financial situation of Argentina throughout 2001, the difficulties in dealing with the servicing of the foreign debt and the decrease of the total level of deposits in the financial system, the Argentine government issued Decree No. 1570/01 which, as of December 3, 2001, established that financial institutions could not make lending transactions denominated in pesos and prohibited cash money withdrawals in excess of US\$250 per week by holders of bank accounts. While these limits on cash withdrawals were maintained, with certain variations and exceptions, until the "corralito" was repealed, prohibition on granting loans denominated in pesos was repealed by Section 7 of Law No. 25,561 on January 6, 2002.

Furthermore, Decree No. 1570/01 prohibited fund transfers abroad except for those corresponding to foreign trade transactions or repayment of outstanding financial commitments, and certain other transfers were subject to the prior authorization of the Central Bank. For purposes of accessing the use of funds deposited in financial institutions, clients were allowed to make electronic transfers between accounts of the same institution or others and in favor of the same holder or other persons; pay expenses by means of debit cards, writing checks, automatic debits and credit cards. Additionally, the Decree declared that new foreign currency deposits can only be received as time deposits, and no demand accounts denominated in foreign currency may be opened. Law No. 25,561 declared a public emergency in social, economic, administrative, financial and foreign exchange market matters, delegating to the Argentine Executive Branch until December 10, 2003, the powers to reorganize the financial, banking and foreign exchange system, reactivate the performance of the economy and improve the employment level and distribution of income, focusing on a program for the development of regional economies, creating the conditions for a sustainable economic growth, consistent with the public debt restructuring, and restructuring outstanding obligations affected by the new foreign exchange system. Such period was extended until December 31, 2005 by Law No. 25,792. Among other provisions, this law put an end to the convertibility system that had been in effect since April 1991, whereby pesos were convertible to US dollars at a rate of Ps.1.00 per dollar.

As of January 10, 2002, Decree No. 71/02 was enacted, establishing a new exchange system on the basis of two exchange markets: an official exchange market and a free exchange market. These markets operated at a fixed and a floating rate, respectively. The purchase and sale of dollars made by the Central Bank in the official exchange market was to be made at Ps.1.40 for each US dollar. The following transactions were to be made through the official foreign exchange market: exchange purchases corresponding to the FOB value of exports of goods; advance collections of exports; pre-financing operations for exports; compensations for losses related to foreign trade received by insurance beneficiaries that paid their premiums through the official foreign exchange market; freights collected by local vessels and aircraft net of the sums allocated to the service of the units abroad; expenses in the country of vessels, aircraft and international overland cargo transport; leases of vessels, aircraft and other local overland cargo transport; and the lease of spaces or warehouses in Argentine ports. Central Bank Communication "A" 3444 ordered to exclude from the obligation to settle at the official exchange market: cash funds denominated in foreign currency derived from exports of goods, collections allocated to the discharge of certain obligations incurred by exporters, including those related to pre-financing, financing and advance collections made abroad. With respect to imports, only payments resulting from the import of certain raw materials and intermediate goods were allowed to be made through the official exchange market. All other collections or payments related to foreign trade transactions and financial obligations in general had to be settled and/or made through the free exchange market. However, this exchange market system, structured as two exchange markets, was in force only until February 8, 2002, when Decree 260/02 was published in the Official Gazette. Since then, a single and free exchange market was implemented, through which all foreign currency exchange transactions are made. Exchange transactions are entered into an exchange rate freely agreed upon by parties, but subject to the regulations and requirements set forth by the Central Bank. The Central Bank issued Communication "A" 3471, as amended, establishing restrictions or special requirements for exchange transactions. Lack of compliance with requirements and conditions shall result in the application of sanctions established by the Criminal Law Exchange Regime.

Such regulation has been modified several times and, therefore, only the most important provisions currently in force are mentioned below:

- Argentine individuals and companies are authorized to buy up to US\$2,000,000 per month;
- the sale of foreign currency to non-residents, with the exception of international organizations, in an aggregate monthly amount exceeding US\$5,000 shall also be previously authorized by the Central Bank, except the case when it is evidenced that the amounts utilized to purchase foreign currency (i) come from the payment of a resident to the non-resident which orders the transfer; and (ii) the payment is performed in relation to import, services, revenues or other commercial transfers for which the resident should have had access to the exchange market in accordance to the exchange rules that regulated payments abroad to commercial account;
- foreign currency exchange or arbitrage transactions with financial institutions located abroad must be previously authorized by the Central Bank, except where such financial institutions are located in countries which are members of the Basle Committee and have an international credit rating not lower than “A” granted by international rating agencies registered with the Central Bank, or where such transactions are entered into with branches of Argentine official banks located abroad;
- financial institutions must obtain the prior authorization of the Central Bank in order to purchase any kind of asset, where the payment for such a transaction is made against delivery of foreign currency or any other kind of foreign denominated asset that is part of the General Exchange Position (Posición General de Cambios) (the “GEP”) of these financial institutions;
- new imports of goods may be fully paid in advance, without consideration of the kind of good, as well as debts for imports with any maturity date;
- access to the free and sole exchange market is allowed for payment of expired capital services originated in financial debts, except for financial entities subject to advance refinancings and rediscounts granted by the Central Bank and restructuring of its foreign debt (Decree No. 739/03 and Communication “A” 3940);
- non-residents may have access to the exchange market for purposes of transferring funds in foreign currency collected in Argentina, originated from amortization installments from national public bonds issued in foreign currency, to accounts in foreign banks;
- there are no restrictions to make payments abroad for services rendered by non-residents on any basis (freight, insurance, royalties, technical advise, fees, etc.);
- transfers abroad for the payment of indebtedness of private entities (comprising both financial and non-financial institutions) and government owned entities; provided that they fulfill certain regulatory requirements—among others—such as (i) a sworn statement affirming the fulfillment of Communication “A” 3602 informative requirements; (ii) the possession of documents which evidence the genuineness of the operation being cancelled, i.e., the entry into the country of the finance proceed and/or its use to cancel the financial or commercial debt, etc.; (iii) the amounts to be transferred have been adjusted, as the case may be, in accordance to Decree 214/02 as amended; and (iv) the fact that the inflows have remained in the county for the legal minimum term (180 days until May 26, 2005 or 365 for funds entered after that date) has been verified;
- effective as of January 8, 2003, Argentine companies may freely transfer corporate profits and dividends corresponding to audited financial statements of local companies without prior Central Bank approval and transfers of funds abroad in order to pay reinsurance premiums will be subject only to the issuance of a statement from the Superintendencia de Seguros de la Nación or the Superintendent of Insurance Board (the regulatory authority on insurance matters) with respect to the reason and amount to be transferred;
- the obligation to entry the collection of goods and services for exports and its sale on the single exchange market as well as a control regime by the intervening financial institutions; and
- foreign currency obtained from the collection of exports corresponding to bills of lading shall be sold at the reference exchange rate when the foreign currency so obtained was not clear at the exchange

market within the applicable legal terms, in accordance with applicable regulation.

The National Government, through the Central Bank, holds control over capital inflows and outflows, enacting the applicable rules in this regard. Decree No. 616/2005, issued in June 2005, established that inflows and outflows of foreign currency into the local exchange market, and indebtedness transactions incurred by local residents that may result in a foreign currency-denominated payment to non-residents, need to be registered with the Central Bank. Furthermore, as from May 26, 2005, the following situations will be subject to certain requirements and conditions: (a) inflows of funds related to foreign borrowing by the private sector, which shall have a term, and be repaid in a period, not shorter than 365 calendar days; and (b) inflows of foreign currency by non-residents for the purpose of (i) holding a position in local currency, (ii) purchasing financial debt or assets (except foreign direct investment and primary placement of publicly traded debt or equity securities listed in one or more exchange markets) and (iii) investment in government bonds in the secondary market. Such requirements do not apply to foreign trade and export finance related transactions. In these situations, the following requirements must be met: (i) inflows must remain in Argentina for 365 days to be computed starting on the day they were negotiated in the local exchange market; (ii) the funds involved in the transactions covered by this decree must be credited in a local bank account; (iii) a non-transferable deposit denominated in US dollars for an amount equal to 30% of the relevant transaction has to be made with the resulting proceeds. This deposit must be for a period of 365 days, cannot bear interest (nor yield any other type of profit) and may not be used as collateral in any credit transaction.

Subsequently, Resolution No. 365/2005 from the Ministry of Economy and Production established that non-resident capital inflows devoted to the primary subscription of notes for the monetary regulation issued by the Central Bank and income derived from the sale by residents of foreign assets for an amount greater than US\$2 million per month, will also be subject to the aforementioned requirements.

On the other hand, said resolution provided certain exemptions to the requirement of making the non-transferable deposit in US Dollars previously mentioned for inflows related to financial borrowings with foreign creditors, so long as they are devoted to investments in non-financial assets and the borrowed amounts are repaid at least 24 months after they were granted; and inflows derived from borrowings from multilateral and bilateral credit entities and official credit agencies, among other exemptions.

On November 16, 2005 the Ministry of Economy and Production issued Resolution No. 637/2005, which set forth that capital inflows devoted to primary subscription of debt securities issued by the trustee of a financial trust, with or without public offering and listed, will also be subject to the requirements established by Decree No. 616/2005.

#### *Regulations regarding Imports and Exports*

The Central Bank established under Communication "A" 3473, as amended, an obligation to transfer from abroad to Argentina the foreign currency obtained from the collection of exports and to settle the foreign currency in the single free exchange market. This is a general obligation applicable to all export transactions except certain specific cases such as oil exports in respect of which it is required to have foreign currencies equivalent to at least 30% of the FOB or C&F value brought to the country. In addition, all export collections have a limited period, ranging between 60 and 360 calendar days, depending on the product being exported, for the exporter to negotiate the foreign currency in the domestic exchange market.

As regards imports, advanced payments of any goods are allowed, upon condition that the clearance of the imported goods (nationalization) is credited within 360 days.

#### *General Exchange Position*

The general exchange position of each financial institution shall not exceed 15% of its equivalent in US dollars of its Argentine regulatory capital, corresponding to the previous month. This limit is increased in the amount of US dollars equivalent to a 5% of the amount of purchase and sale exchange with clients occurred within the last month and 2% of the total of demand and time deposits in foreign currency registered at the closing of the last month. The maximum limit of the general exchange position is US\$1,500,000 and may be increased up to the amount of US\$5,000,000 where the financial institution maintains more than 15 branches, up to US\$2,000,000 for

the holding of foreign currencies other than the US dollar or Euros, up to US\$1,000,000 for checks that have been issued against foreign banks, have been purchased from third parties, and are pending credit in correspondent accounts ("*cuentas de corresponsalia*"), and up to a maximum of US\$3,000,000 for the balance of US dollar bills or Euros remitted to the Federal Reserve of the United States or to the European Central Bank that may be pending of crediting after 72 hours from the date of shipping of such bills.

In determining the total GEP of a financial institution, the following shall be considered: (a) holdings in gold and foreign currency, (b) sight deposits and time certificate of deposits at any time in foreign banks with international rating not lower than "AA", (c) investments in foreign private and public bonds issued by country members of the OCDE which sovereign debt has an international rating not lower than "AA", (d) other liquid investments held abroad, and (e) debt and credit balances in *cuentas de corresponsalia*. Additionally, purchases and sales of such assets already entered into and pending settlement in connection with exchange purchases and sales to clients with a term not exceeding 48 hours shall also be considered.

The general exchange position shall not include (a) foreign assets of third parties held in custody, (b) *cuentas de corresponsalia* balances in connection with transfers made by third parties which are pending settlement, (c) term sales and purchases of foreign currency or foreign assets, (d) direct investments abroad, or (e) balances of accounts that are held with the Central Bank for the compliance with minimum liquidity requirements in foreign currency.

#### *Debt classification and loan loss provisions*

The regulations on debt classification are designed to establish clear guidelines for identifying and classifying asset quality, as well as evaluating the actual or potential risk of a lender sustaining losses on principal and/or interest, in order to determine, taking any loan security into account, whether the provisions against such contingencies are adequate.

Pursuant to Central Bank Communication A 2216, dated June 9, 1994, as amended, banks must classify their loan portfolios into two different categories: (i) consumer or housing loans, and (ii) commercial loans. Consumer and housing loans include housing loans, consumer loans, credit-card financings and other types of installment credits to individuals. All other loans are considered commercial loans. Consumer or housing loans that exceed of Ps.500,000 and which repayment is linked to its projected cash flows are classified as commercial loans.

Under the current debt classification system, each customer, as well as the customer's outstanding debts, are included within one of six sub-categories. The debt classification criteria applied to the consumer loan portfolio are based primarily on objective factors related to customers' performance on their obligations or their legal standing, while the key criterion for classifying the commercial loan portfolio is each borrower's paying ability, based on its future cash flow.

#### *Foreign currency net global position*

In May 2003, the Central Bank established that the difference between assets and liabilities for financial intermediation, denominated in foreign currency, cannot exceed, (A) if negative, 30.0% of the financial institution's Argentine regulatory capital and, (B) if positive, the lesser of (i) the aforementioned limit or (ii) the institution's own liquid resources (Argentine regulatory capital less non-liquid assets and financings granted to the financial institution's related persons). However, the enforcement of the condition set forth in clause (B) above has been temporarily suspended by implementation of Communication "A" 4350 effective as of May 1, 2005.

In July 2004, the Central Bank stated that financial institutions were required to comply with an additional limit in computing the foreign currency net global position. Sight accounts balances plus such assets and liabilities that may be realized (which are required to be regularly negotiable by significant volumes in institutional markets) or that mature within the next 180 days shall not exceed the percentage to be fixed in due time in respect of the computable net worth corresponding to the preceding month. Finally, facing the existing difficulties for the compliance of such requirement, the Central Bank decided to suspend as from May 1, 2005, the implementation of the positive limit of the net global position and the short term additional limit.

### *Foreign denominated deposits*

On February 3, 2002, the Argentine Executive Branch issued Decree N° 214/2002. At that time, all obligations to pay sums of money of any cause or nature, denominated in US dollars or other foreign currencies, were converted into pesos. All deposits in US dollars or other foreign currencies existing in the financial system were converted to pesos at a rate of Ps.1.40 per US dollar, and financial institutions are required to meet their obligations by reimbursing pesos at the above mentioned rate. In addition, such deposits are subject to indexation pursuant the CER, and to the applicability of minimum interest rate.

The conversion of foreign-denominated deposits into pesos continued subject to more flexible rescheduling. Pursuant to Communication "A" 3875, as amended, the Central Bank has authorized financial institutions, which do not maintain indebtedness originated in Central Bank financial assistance, to offer their depositors better conditions for the repayment of rescheduled deposits. These financial institutions can only do so provided that they have conducted an analysis to determine that improving the repayment conditions of deposits does not adversely affect their liquidity or their compliance with the corresponding regulations.

Financial institutions that received financial assistance from the Central Bank can agree with their depositors on better conditions regarding the repayment of rescheduled deposits provided they obtain prior authorization from the Financial Superintendency.

In addition, Decree No. 905/02, issued on May 31, 2002, allowed for the creation of freely available deposits accounts. Furthermore, on August 2, 2002, the Central Bank issued new regulations for the receipt of new deposits in foreign denominated currency through special checking accounts, saving accounts, and term deposits accounts. On December 2, 2002, all restrictions on cash withdrawals from checking and saving accounts were eliminated.

### *Exchange of foreign currency deposits with government bonds*

The Argentine Executive Branch enacted Decree No. 739/03. Pursuant to such Decree, holders of rescheduled deposits originally constituted in foreign currency may:

- in the case of deposits of up to Ps.42,000 principal amount, request the total or partial cancellation of the deposit by the respective financial entity by means of the combined delivery of: (a) the deposit amount adjusted by CER plus the corresponding interest; and (b) the delivery of BODEN for the difference between the original nominal value and the value resulting from CER adjustment;
- in the case of deposits in excess of Ps.42,000 but less than Ps.100,000 in principal amount, request the total or partial cancellation of the deposit by the respective financial entity by means of: (A) transforming this deposit into a new deposit at a 90-day term for the nominal value of the deposit plus adjustment for CER to the date of creation of the new deposit, plus interest at 2% per annum; and (B) the delivery of BODEN for the difference between the original nominal value of the rescheduled deposit and the value resulting from CER adjustment; and
- in the case of deposits in excess of Ps.100,000 in principal amount, request the total or partial cancellation of this deposit by the respective financial entity by means of: (A) transforming the deposit into a new 120-day term deposit for the original nominal value of the deposit plus adjustment for CER to the date of creation of the new deposit, plus interest at 2% per annum; and (B) the delivery of BODEN for the difference between the original nominal value of the rescheduled deposit and the value resulting from CER adjustment.

### *Foreign currency debts owed to the financial system*

In accordance with Decree No. 214/02, all foreign currency denominated debt held by financial institutions were converted into pesos at a rate of one peso per dollar or its equivalent in foreign currency. Debtors could meet their obligations by repaying such debt with pesos at that rate. Both deposits and debts were originally subject to an adjustment by CER and a minimum interest rate was applied to deposits and a maximum interest rate was applied to

loans. Debts denominated in US dollars or other foreign currencies transferred in trust by institutions to financial trusts were converted to pesos under the same regime.

Law No. 25,713 established that, effective as of February 3, 2002, the foreign currency denominated debt that was converted into pesos pursuant to Law 25,561 would be subject to adjustment by CER as published by the INDEC. The following loans to individuals, however, were not subject to CER adjustment:

(i) loans secured by means of a mortgage affecting primary housing (*vivienda única y familiar de ocupación permanente*), up to the original amount of US\$250,000 or another foreign currency and converted into pesos;

(ii) personal loans, up to the amount of US\$12,000 or another foreign currency and converted into pesos; and

(iii) secured personal loans up to the amount of US\$30,000 or another foreign currency and converted into pesos.

*Rescheduling of the financial institutions' obligations under rediscount and advance transactions*

Effective April 1, 2003, the Argentine government issued Decree 739/03 which set forth the rescheduling of the balances owed by financial institutions under rediscounts and advances granted to them by the Central Bank that were effective as of the date of said Decree. This Decree allows financial institutions to restructure the cancellation of the unpaid balances under such transactions (the "restructured transactions") in accordance to the following financial terms and conditions:

(a) The currency shall be the Argentine peso;

(b) the payment schedule shall match the programmed payments of the assets affected by the financial institutions as guarantee (the "affected assets") under the rediscount transactions being restructured;

(c) the payment schedule may not contemplate more than 70 equal, monthly and consecutive installments; *provided, however*, that this number of installments can be extended by the recently created financial system restructuring unit, an Argentine government's agency. (For more information see "*The Financial System Restructuring Unit*");

(d) the principal shall be adjusted by the CER;

(e) the principal must be cancelled in advance by the financial institutions when the affected assets bear an annual interest rate higher than 3.5%. In such case, the amount to be cancelled in advance shall be equal to the sums received as interest from the affected assets that exceed said rate;

(f) the financial institutions' obligation to cancel in advance shall also be applicable when the amortization schedule under the affected assets provides for principal payments in larger amounts than the ones set forth under the restructured transactions. In this case, the amount to be cancelled in advance shall equal the positive difference between the sums received as principal payments under the affected assets and the principal amount to be paid under the restructured transaction;

(g) without prejudice to paragraph (d) and (e) above, financial institutions may voluntarily cancel in advance, at any interest payment date, the amounts owed under the restructured transactions;

(h) the restructured transactions shall have monthly interest periods and shall bear interest at an annual interest rate equal to 3.5%;

(i) financial institutions shall guarantee the restructured transactions with Argentine guarantee loans (*Préstamos Garantizados*) with nominal value of not less than 125% of the principal owed. In case financial institutions do not have Argentine guarantee loans, they may offer the Argentine government guarantee bonds issued under Decree 1579/02 or bonds issued under Decree 905/02, 1836/02 and 739/03; and



(j) the affected assets shall remain as guarantee without being released until the earlier of (i) the voluntary exchange of the foreign Argentine government debt is finished as provided under Section 24 of Decree 1387/01 or (ii) December 31, 2004; provided, however, that in cases of voluntary advance cancellations, the affected assets shall be released (a) on a *pro rata* basis; and (b) in the inversed order of the established priority.

### ***The Financial System Restructuring Unit***

Effective May 26, 2003, Decree N° 1262/03 ordered the organization of the Financial System Restructuring Unit (the “restructuring unit”). In accordance to said Decree, the restructuring unit shall start to function within 30 days from the issuance of said Decree. The restructuring unit shall have as main objectives (i) the design of a restructuring strategy for the financial system and (ii) the corresponding plan to said strategy.

The restructuring unit shall have a total of six (6) members. Three of such members shall be appointed by the Central Bank whereas the Ministry of Economy shall appoint the remaining members.

The Central Bank can modify the rescheduling of the rediscount transactions as set forth under Decree 739/03; provided that (i) the restructuring unit authorizes said modification and (ii) the following conditions are met:

(a) the affected assets have an average life greater than the period of time (70 months) set forth under the Decree 739/03;

(b) the financial institution meets the criteria described under Section 34 and 35 *bis* of the Financial Institutions Law;

(c) the financial institutions agrees to a reorganization plan designed to strengthen its efficiency and viability and the restructuring unit approves said plan;

(d) the modification to the rescheduling set forth under Decree 739/03 must conform to the number of installments as the affected assets up to a maximum of 120 monthly and consecutive installments; and

(e) upon the occurrence of an event of default, the restructuring unit shall have the right to accelerate the payments under the above-mentioned rescheduling.

### ***Compensation to financial institutions for damage suffered from different principal adjustment systems applied over assets and liabilities***

Law 25,796 enacted on October 29, 2003 and regulated by Decree 117/2004 established a mechanism for compensating financial institutions for the effects derived from the rules that required that certain assets should be adjusted by the CVS and certain liabilities should be adjusted by the CER. In addition, the above mentioned laws established that, effective April 1, 2004, the updating indexes would cease to be applicable to those assets that were adjusted by the CVS.

In order to compensate for the difference between the CER and the CVS, the issuance of “variable rate National Government bonds in pesos due 2013” (BODEN 2013) was approved for a maximum amount of Ps.2,800 million, to be allocated to financial institutions that opt to adhere to the compensation regime. If the compensation resulting from the calculation method set forth by the regulatory decree exceeds the stated amount, settlement will be made ratably among the institutions that adhered to the system.

The compensation will be made by credit line (mortgage, pledge and personal loans), computing balances net of allowances and a recoverability factor of 5%. Based on the monthly accrual of principal and interest installments under the French, a calculation will be made by applying a 2% rate on the balance as updated by the CER and another calculation by applying the average interest rate of the line over the principal balance as updated by the CVS. If the difference between the first and second calculation is positive, the financial institutions are entitled to receive compensation from the National Government. If the difference is negative, the institutions must reimburse the compensation by returning the BODEN 2013 received or delivering cash or other National Government bonds held by them, at their option. The bonds will be subject to a lien in case they are to be restituted to the National Government. The first settlement will comprise the period from February 3, 2002 until the issuance

of the BODEN 2013. Subsequent settlements will be made every six months in arrears. The term for financial institutions to express their adhesion to the compensation regime expired on July 5, 2004. Various financial institutions did not adhere to this compensation regime as they disagreed to the calculation method contemplated by the implementing regulations of Law 25,796, and filed administrative claims in order to obtain full relief for the damages caused by the mismatch in the asymmetric indexation of assets and liabilities.

### ***Mortgage Refinancing System***

Law No. 25,798, enacted on November 5, 2003 and regulated by Decrees No. 1284/2003 and No. 352/2004, among others, sets forth a system to refinance delinquent mortgage loans in order to prevent foreclosures of the housing units constituting the only dwelling of debtors. The system comprises both delinquent debtors in the financial system and those outside the financial system. Financial institutions are free to adhere to the system, and should they decide to adhere, they may refinance their mortgage loan portfolio eligible for foreclosure either in whole or in part. Pursuant to Law No. 25,798, a trust is created whose assets shall be formed with certain financial resources to be contributed by the Argentine government and the income derived from the amortization installments of refinanced loans. Banco de la Nación Argentina, in its capacity as Trustee of the trust, shall enter into refinancing agreements with the debtors under the following terms: a grace period of one year and amortization in monthly installments not to exceed 30% of the aggregate income of the family living in such housing unit. Banco de la Nación Argentina will then issue bonds that shall be delivered in lieu of payment to the mortgagee and will subrogate the mortgagee's rights in relation to the debtors. The amounts to be refinanced may not exceed the appraisal value of the secured real property, after deduction of debts for taxes and maintenance expenses. The trust shall pay the mortgagee institutions only the amount corresponding to overdue defaulted principal and in relation to the outstanding debt, Banco de la Nación shall repay principal plus interest and adjustments according to the terms and conditions of the original mortgage loan agreement. The term for financial institutions to express adhesion to the Mortgage Refinancing System expired on June 22, 2004. Law No. 25,908 (published on July 13, 2004) introduced partial amendments to Law No. 25,798 to provide for various conditions related to the inclusion of mortgage loans subject to court or out-of-court foreclosure procedures in the Mortgage Refinancing System. On November 3, 2005, Law No. 26,062 was enacted pursuant to which: (i) foreclosures of housing units constituting the only dwelling of debtors of eligible loans under Law 25,798 were suspended for a period of 120 days, and (ii) a new period of 120 days was granted to financial institutions to adhere to the Mortgage Refinancing System. On March 8, 2006 the Argentine government enacted Law No. 26,084 extending the term set forth in Law No. 26,062 for an additional 90-day period (as from March 4, 2006).

### ***Priority Right of Depositors***

Argentine Law No. 24,485, in effect since April 18, 1995, as amended by Argentine Law No. 24,627, provides that in the event of the judicial liquidation or bankruptcy of a bank, all depositors, regardless of the type, amount, or currency of their deposits, whether individuals or legal entities, would have a general and absolute priority right over all creditors, with the exception of certain labor creditors and those creditors secured by a pledge or mortgage, to be paid out of 100.0% of the proceeds of the liquidation or the assets of the failed bank, according to the following order of priority:

- (i) deposits of up to Ps.50,000 per person or corporation (considering all amounts of such person/corporation deposited in one financial institution), or its equivalent in foreign currency, with priority right granted to one person per deposit. In the case of more than one account holder, the amount is pro rated among such account holders;
- (ii) all deposits greater than PS.50,000 or its equivalent in foreign currency, and
- (iii) the liabilities derived from credit facilities granted to the financial institution, directly affecting the international trade.

Deposits held by related parties of the financial institution do not benefit from the priority rights established pursuant to subsequent (i) and (ii) above, pursuant to the relevant regulations issued by the Argentine Central Bank.

### ***Mandatory Deposit Insurance System***

Argentine Law No. 24,485 and Decree No. 540, as amended by Decree No. 1292/96 and Decree No. 1127/98, created a deposit insurance system for bank deposits and delegated to the Central Bank the organization and start-up of the deposit insurance system.

The deposit insurance system has been implemented through the creation of a fund named *Fondo de Garantía de los Depósitos* (“FGD”) which is administered by a private legal entity named *Seguro de Depósitos Sociedad Anónima* (“SEDESA”). The shareholders of SEDESA are the Argentine government through the Central Bank, which holds at least one share, and a trust constituted by the financial institutions authorized by the Central Bank which wish to participate in the fund. The Central Bank establishes the extent of participation by each institution proportionally to the resources contributed by each such institution to the FGD (currently Communication “A” 3,153, as amended).

The deposit insurance system covers deposits of individuals and legal entities in local and foreign currency held in accounts in participating financial institutions, including checking accounts, savings deposits and time deposits up to Ps.30,000.

The Central Bank may modify, at any time, and with general scope, the sum of the mandatory deposit guarantee insurance according to the consolidation of the financial system and any other elements that it may deem appropriate.

The effective payment on this guarantee will be made within 30 business days of the revocation of the license of the financial institution in which such funds are held and is subordinated to the exercise of priority rights of depositors described under “—Priority Right of Depositors.”

Decree No. 214/2002 also contemplates that SEDESA could issue securities to pay the guarantee if it could not do so in cash.

The deposit insurance system does not cover:

- transferable time deposits which have been transferred by endorsement, even if the last holder is the original depositor;
- the deposits captured by means of systems that offer incentives to the agreed upon interest rate, whatever the denomination or form that they adopt (insurance, lotteries, tourism, provision of services, etc.);
- the deposits on which they agree upon interest rates greater than those discussed above, that are released periodically by the Central Bank for fixed-term deposits and in checking and savings accounts by Communication “B”, determined by adding two percentage points annually to the moving average of the last five business days of the rates resulting from the survey by the Central Bank of rates paid under term deposits and balances over checking and savings accounts of up to Ps.100,000;
- deposits of financial institutions in other financial institutions, including certificates of deposits acquired in the secondary market;
- deposits made by persons related directly or indirectly to the institution;
- time deposits of securities, acceptances or guarantees; and
- the amounts available from past due deposits or closed accounts from other excluded transactions.

Every financial institution is required to contribute to the FGD a monthly amount ranging from a minimum of 0.015% to a maximum of 0.06% of the monthly average of daily balances of deposits in local and foreign currency, as determined by the Central Bank. During 2004 such contribution amounted to 0.03% and was reduced to 0.015% effective as of January 1, 2005. Punctual contribution of such amounts is a condition precedent to the continuing operation of the financial institution. The first contribution was made on May 24, 1995. The Central Bank may require financial institutions to advance the payment of up to the equivalent of two years of monthly contributions and debit the past due contributions from funds of the financial institutions deposited with the Central

Bank. The Central Bank may require additional contributions by certain institutions, depending on its evaluation of the financial condition of such institutions.

When the contributions to the FGD reach the greater of Ps.2,000 million or 5.0% of the total deposits of the system, the Central Bank may suspend or reduce the monthly contributions and reinstate them when the contributions fall below that level.

### ***Other Restrictions***

The Financial Institutions Law prohibits financial institutions from creating security interests over their assets without prior authorization from the Central Bank and entering into transactions with their directors and administrators and with affiliated entities on terms more favorable than those offered to their clients.

### ***Capital Markets***

Pursuant to the Financial Institutions Law, commercial banks are authorized to underwrite and place both equity and debt securities. However, under Central Bank regulations, the underwriting of equity and debt securities by a bank would be treated as “credit assistance” and, accordingly, until the time the securities are placed with third parties, such underwriting would be subject to the limitations discussed under.

Commercial banks are authorized to trade equity and debt securities on the Argentine over-the-counter market if they are registered with the CNV as OTC brokers (*agentes de mercado abierto*). In its capacity as an over-the-counter broker, a commercial bank will be subject to the supervision of the CNV and, as a result, must comply with certain reporting requirements.

The Buenos Aires Stock Market has authorized brokerage firms organized as sole-purpose corporations (*societades de bolsa*) to operate as securities brokers at the Buenos Aires Stock Exchange (“BASE”) since 1990. There are currently no restrictions on a commercial bank owning a *sociedad de bolsa* and most of the principal commercial banks operating in Argentina have established their own *sociedad de bolsa*. All brokers (individuals or firms) are required to purchase at least one share of the Buenos Aires Stock Market as a condition to operating as a securities broker at the BASE.

An agreement between the BASE and the MAE sets forth that the trading of shares and share-related securities must be done exclusively in the BASE, and that corporate debt securities listed in the BASE may also be traded on the MAE.

Commercial banks may operate as both managers and depositories of Argentine mutual funds, provided that a bank may not act simultaneously as a manager and depository for the same fund.

### ***Financial Institutions with Economic Difficulties***

Any financial institution, including a commercial bank, which evidences a cash reserve deficiency, has not abided by certain technical standards, has not maintained a minimum net worth or whose solvency or liquidity is deemed impaired by the Central Bank must submit a restructuring plan (a “Restructuring Plan”) to the Central Bank, not later than 30 calendar days from the date on which the request is made by the Central Bank. The Central Bank can assign a trustee to the financial institution and limit dividend distributions. In connection with a Restructuring Plan, the Central Bank is authorized to provide a temporary exemption from compliance with technical regulations and/or payment of fines which arise from such non-compliance.

In addition, the Central Bank’s charter authorizes the Financial Superintendency within the Central Bank, subject only to the approval of the president of the Central Bank, to suspend for up to 90 days, in whole or in part, the operations of a financial entity if its liquidity or solvency has been adversely affected. During the suspension, there is an automatic stay of claims, enforcement actions and precautionary measures, any commitment increasing the financial entity’s liabilities is void and acceleration of indebtedness and interest accrual is suspended.

If, in the judgment of the Central Bank, a financial institution is in a situation which, under the Financial Institutions Law, would authorize the Central Bank to revoke the financial institution's license to operate as such, the Central Bank may, prior to considering such revocation, order a variety of measures, including:

- taking steps to capitalize or increase the financial institution's capital;
- revoking the approval granted to the shareholders of the financial institution to own an interest therein;
- restructuring and/or transferring assets and liabilities;
- granting temporary exemptions to comply with technical regulations and/or pay charges and fines arising from such defective compliance; or
- appointing a delegate or intervenor which may eventually replace the board of directors of the financial institution.

### ***Dissolution and Liquidation of Financial Institutions***

The Central Bank must be notified of any decision to dissolve a financial institution pursuant to the Financial Institutions Law. The Central Bank, in turn, must then notify a court of competent jurisdiction which will determine who will liquidate the institution: the corporate authorities or an appointed, independent liquidator. This determination is based on whether or not sufficient assurances exist which indicate that such corporate authorities are able to carry out liquidation properly.

Pursuant to the Financial Institutions Law, the Central Bank no longer acts as liquidator of financial institutions. However, when:

- a Restructuring Plan has failed or is not considered viable;
- local and regulatory violations exist; or
- substantial changes have occurred in the entity's condition since the original authorization was granted,

the Central Bank may decide to revoke a financial institution's license to operate. If this occurs, the law permits judicial or extrajudicial liquidation as in the case of voluntary liquidation described in the preceding paragraph. During the liquidation process, bankruptcy proceedings may be initiated against a bank by a court of competent jurisdiction or by any creditor of the bank, provided that in certain cases a waiting period of 60 days will apply.

## ARGENTINE INSURANCE SYSTEM AND REGULATION

*The following is a summary of certain matters relating to the Argentine insurance system, including provisions of Argentine law and regulations applicable to insurance companies in Argentina. This summary is not intended to constitute a complete analysis of all laws and regulations applicable to insurance companies in Argentina. Prospective investors in the notes are advised to consult their legal advisors for a more detailed analysis thereof.*

### **The Argentine Insurance System**

At December 31, 2005, according to the National Superintendency of Insurance, the Argentine insurance system consisted of 192 insurance entities, 104 of which were dedicated to property or both life and property insurance, 50 solely to personal insurance, 23 to retirement insurance and 15 to labor risk insurance. Although the aggregate number of entities in the industry has increased since 1994, when new areas were opened for insurance, the number of entities rendering services in “traditional” insurance (insurance activities permitted before 1994) has decreased. Between 1996 and 2001, the National Superintendency of Insurance revoked the licenses of 121 companies.

According to the National Superintendency of Insurance, the insurance market had aggregate premiums of Ps.12,728 million for the period July 2004 / June 2005. Such figures represent an increase of more than a 20% with respect to the prior year. Comparing the calendar years January / December 2005 versus the same months of 2004, represent an increase of 12%, exceeding Ps.14,000 million for 2005.

The insurance market had aggregate premiums of Ps.1,157.6 million for January 2006, of which Ps.818.6 million (70.71%), belong to property insurance; Ps.204 million (17.62%) to life insurance and Ps.135 million (11.66%) to retirement insurance.

### **National Superintendency of Insurance**

The activities of insurance companies in Argentina are regulated by Argentine Law No. 20,091, as amended (the “Insurance Companies Law”) and by regulations issued by the Superintendency of Insurance. The Superintendency of Insurance is the regulatory and supervisory authority over insurance companies and insurance brokers in Argentina. Insurance companies are required to file their annual and quarterly financial statements and to provide the Superintendency of Insurance with a complete and detailed analysis of their financial condition. The Superintendency of Insurance also conducts periodic examinations of the affairs of insurance companies.

The Superintendency of Insurance supervisory powers include:

- authorization of insurance companies to operate specific insurance lines of business and the insurance plans and terms and conditions of their policies, including the approval of such companies’ bylaws;
- evaluation of the solvency and insurance expertise of insurance companies’ shareholders, directors and syndics; determination, with general and uniform criteria, of minimum capital and reserve requirements; oversight of the financial condition of insurance companies; regulation of the category and amount of permitted investments of insurance companies; authorization for the merger of insurance companies and assignment of insurance portfolios; and
- the ability to impose fines on or suspend or revoke the licenses of insurance companies and oversight of the liquidation of insurance companies.

In accordance with the Insurance Companies Law, only those insurance companies (whether local or foreign) which have been granted licenses by the Superintendency of Insurance are entitled to carry out insurance activities in Argentina. Those companies may be: (i) Argentine private entities, in the form of corporations (*sociedades anónimas*), cooperatives (*sociedades cooperativas*) or mutual insurance companies (*sociedades de seguros mutuos*); (ii) branches or representative offices of foreign companies of the type described in (i) above; or (iii) federal, provincial or municipal governmental entities. The Privatization law, however, explicitly permits the Bank to provide insurance for risks associated with its lending activities until August 2007.

Effective October 1, 1998, the Superintendency of Insurance permitted the incorporation of new insurance companies. The issuance of new insurance licenses was suspended between 1977 and 1994, and has been permitted in limited circumstances since 1994.

The transfer of stock of local insurance companies is subject to the approval of the Superintendency of Insurance, except when the purchaser is a company which has a satisfactory rating. There are no restrictions on foreign ownership of local insurance companies. Recently issued regulations also require newly formed companies to provide specific information about the company's shareholders.

### **Required Reserves**

The Superintendency of Insurance requires that companies which conduct insurance operations, including the Bank, maintain certain reserves depending on their lines of business and policies issued. The reserves are determined primarily pursuant to two criteria, claims and premiums.

Claim-related reserves have two principal forms: occurrences and "claims reported but not registered" ("RBNR"). The reserve for occurrences relates to claims filed but not yet paid, and it is based on a reasonable estimation of future amounts to be paid based on the insurance company's knowledge of the claims reported by its insureds. The RBNR reserve is intended to account for filed claims which have not yet been registered on the accounting records of the company. This reserve may be estimated based upon historical information or subsequent review, if possible. A third form of claim-related reserves, for liabilities incurred but not reported ("IBNR"), is used by Argentine insurance companies, including the Bank and is required by the Superintendency of Insurance. IBNR is an estimate of amounts expected to be paid for claims not yet filed, typically based on historical information of the company or market data.

There are also three forms of premium-related reserves: ongoing risks reserve, mathematical reserve and sufficiency of premiums. Ongoing risks reserve is maintained for those areas of activity in which policies cover a short time period (usually less than a year), and an up-front premium is paid for the entire coverage period. Ongoing risks reserve is intended to cover risks related to coverage which extends beyond the applicable accounting period. The ongoing risks reserve essentially allows income to be distributed over different fiscal periods, since the income generated by premiums paid in the applicable fiscal year may not cover risks beyond such period. The mathematical reserve is created for long-term contracts (typically life insurance) in which the risk increases over time. In order to avoid charging borrowers premiums which increase incrementally, premiums are maintained constant, but include a percentage intended to cover future risks, which is deemed a reserve. The mathematical reserve also allows the company to amortize a portion of the premium income received.

In its Resolution 28,906/02, the Superintendency of Insurance determined that insurance providers are obligated to maintain a reserve for any insufficiency of premiums, with the objective to cover any deficit that could exist for insufficiency of premiums. The determination of this reserve is calculated by the sum of all revenue generated (*i.e.*, premiums paid and earnings on investments) minus all expenses incurred (*i.e.*, claims paid, administrative expenses, etc.) during the immediately preceding 12 months. The Bank currently maintains reserves at or above the levels prescribed in this resolution.

### **Minimum Capital Requirements**

Pursuant to regulations enacted in April 1998, both insurance companies existing as of October 1, 1998 and insurance companies incorporated thereafter have been required to comply with new minimum capital requirements. The required minimum capital for both existing and newly incorporated companies is the greatest of the amount determined by taking into account the line of insurance business, premiums and overcharges, and claims paid and accrued.

#### ***Line of Business***

Minimum capital requirements for insurance companies existing and authorized until September 30, 1998 pursuant to their line of insurance business are as follows: (i) Ps.2.25 million for automobile or motor insurance, excluding public transportation casualty; (ii) Ps.750,000 for each of the following lines of insurance business: (a) casualty; (b) insurance against loss and damage, including fire and combined insurance, robbery and similar risks,

transportation, farm animals, hail, technical insurance and several other risks; and (c) bond insurance and credit insurance, except mortgage credit insurance; (iii) Ps.750,000 for personal accidents, health, life and burial insurance; (iv) Ps.3.0 million for operating jointly activities described in (i), (ii) and (iii) above; (v) Ps.2.0 million for retirement insurance, excluding pension-related life annuity insurance and work risks annuity; (vi) Ps.3.0 million for pension related life annuity insurance and rents for risks at work; this amount also allows the insurer to operate in the area described in item (v) above; (vii) Ps.3.0 million for pension related disability and death collective insurance, which amount also allows the insurer to operate in the area described in item (iii) above; (viii) Ps.3.0 million for labor risk and mortgage credit insurance; (ix) Ps.6.0 million for public transportation casualty insurance, which amount will be in addition to the minimum required capital when it is not the only area of activity of the insurance company; (x) Ps.2.0 million for mutual companies which operate exclusively in public transportation casualty insurance with additional increases of 3.0% of premiums and installments during the first two years and 5.0% in subsequent years until such amount equals the annual earnings amount; and (xi) Ps.750,000 for insurance companies which operate exclusively in burial insurance activities.

Insurance companies incorporated or authorized after October 1, 1998 have the following minimum capital requirements: (a) Ps.10.0 million for operating in the activities described in (i) above, which also allows such companies to operate in activities described in (ii) above; (b) Ps.5.0 million for the activities described in (ii) above; (c) Ps.5.0 million for insurance companies that will operate jointly on activities described in (iii) and (viii) above (companies which operate in these areas will be limited to these specific operations); (d) Ps.5.0 million for the activities described in (v) and (vi) above; and (e) for the activities described from (viii) to (xi) above the minimum capital amount will be the same.

#### ***Premiums Collected***

For all insurance companies, the minimum capital requirement based on premiums collected is equal to (i) a specified percentage of premiums collected during the prior fiscal year, multiplied by (ii) the ratio between net and gross claims paid during the prior three fiscal years, which ratio may not be less than 0.5. With respect to more recently formed companies, the foregoing formula will be adjusted to take into account the period during which each company has been in existence.

#### ***Claims Paid***

For all insurance companies, the minimum capital requirement based on claims paid is equal to (i) a specified percentage of the sum of claims paid plus claims accrued over the last three fiscal years, divided by three, multiplied by (ii) the ratio between net and gross claims paid during the prior fiscal year, which ratio may not be less than 0.5. With respect to more recently formed companies the foregoing formula will be adjusted to take into account the period during which each company has been in existence.

Individual life insurance companies without savings coverage must have a minimum capital determined pursuant to procedures specified in the insurance regulations above mentioned. Individual life insurance with savings coverage must have a minimum capital determined pursuant to a special procedure depending upon premiums and overcharges and claims, in all cases as specified in the insurance regulations.

#### ***Deficit in Minimum Capital***

In the event of a deficit in the minimum capital, insurance companies may be requested, depending on the circumstances to explain to the Superintendent of Insurance within five business days, and to eliminate the deficit within 15 business days, or to submit a restructuring plan providing for elimination of the deficit through one of the following procedures: (i) capital contributions; (ii) merger; (iii) administration by a third party with a purchase or a merger option; (iv) assignment of the portfolio; and (v) exclusion of certain assets and liabilities from the insurance company and assignment, for consideration, of such assets to other insurance company or to a trust.

If an insurance company fails to meet the minimum capital requirements, the Superintendent of Insurance may attach the property of the company or order the company to refrain from writing new business while pending compliance with the minimum requirements.



## **Prohibited Activities**

Insurance companies cannot, among other prohibitions:

- co-own assets without prior authorization of the Superintendency of Insurance;
- incur liens upon their real property other than to secure the purchase price pursuant to the conditions established by the Superintendency of Insurance;
- issue debt securities, promissory notes (pagarés) or drafts;
- pay claims with drafts or promissory notes;
- borrow funds from a bank, unless it were subordinated debt subject to Superintendency of Insurance regulations, unless previously authorized by the Superintendency of Insurance in cases of transitory situations of lack of liquid assets; and
- guarantee third-party obligations except in the case of approved insurance operations.

Individuals, properties and any insurable interests within Argentine jurisdiction may not be insured by companies which have not been approved by the Superintendency of Insurance. Insurance policies issued in violation of this requirement will subject the insured and the broker to fines up to 25 times the amount of the premium.

## **Reinsurance**

Between 1952 and 1992, the *Instituto Nacional de Reaseguros*, a governmental corporation of reinsurance (“INDER”), had a monopoly on reinsurance in Argentina. In 1992, the INDER was liquidated and the Argentine reinsurance markets were reopened for any reinsurance company. The Superintendency of Insurance supervises and controls reinsurance activity and authorizes companies to act as reinsurers.

Most insurance companies in the Argentine market have reinsurance from foreign reinsurance companies through a broker duly registered with the Superintendency of Insurance. Foreign reinsurance companies, duly authorized to act as such in their country of incorporation, can execute direct reinsurance agreements with local insurance companies from their country of incorporation, provided that they are registered on the registry of reinsurers. A foreign reinsurance company must have a net worth of at least US\$30.0 million, file an application with the Superintendency of Insurance, prove that the law of its country of incorporation permits the company to take commitments in a foreign country in a freely convertible currency and appoint an attorney-in-fact with sufficient powers to represent the company in Argentina. Foreign reinsurance companies must present their annual financial statements to the Superintendency of Insurance and are subject to a special disclosure regime.

Local reinsurance companies must have a minimum capital requirement of Ps.10.0 million and must comply with the minimum capital requirements described in the insurance regulations.

## **Liquidation**

### ***Voluntary Liquidation***

If an insurance company voluntarily chooses to liquidate, liquidation procedures may be validly carried out by the company’s management, although the Superintendency of Insurance maintains the right to oversee the liquidation process. If the company does not commence liquidation procedures immediately, or if the interest of the company’s insureds could be harmed in any way, the Superintendency of Insurance may take control of the liquidation procedure after obtaining an order from a court of competent jurisdiction.

### ***Involuntary Liquidation***

If liquidation results from revocation of the insurance license, the Superintendency of Insurance will require its appointment as liquidator from a court of competent jurisdiction. In addition, provided that certain conditions for dissolution are met, any court of competent jurisdiction may, upon request of an interested party,

declare the dissolution of an insurance company and order its liquidation by the Superintendent of Insurance. Insurance companies may not make use of reorganization procedures provided for in the Bankruptcy Law.

## CERTAIN LEGAL ASPECTS OF MORTGAGES IN ARGENTINA

*The following is a summary of certain legal aspects of mortgages in Argentina, including provisions of Argentine law and regulations related to mortgages in Argentina. We do not intend this summary to constitute a complete analysis of all laws and regulations concerning mortgages in Argentina. We advise you to consult your legal advisors for a more detailed analysis.*

### **Regulatory Framework**

The Argentine Civil Code, the Trust Law No. 24,441 (“the “Trust Law”), the Argentine Civil and Commercial Procedure Code and Law No. 17,801 (the “Real Estate Registry Law”), as amended and supplemented, contain most of the legal guidelines applicable to almost all aspects of mortgages created on real property located in Argentina. On November 6, 2003, the Argentine Congress issued Law No. 25,798, pursuant to which a Mortgage Refinancing System has been implemented. Such mortgaged refinancing system shall be funded by a special trust to be created for such purpose. The trust shall acquire delinquent mortgage loan portfolios, and debtors of the assigned mortgages must repay their loans at fixed interest rates denominated in pesos. Decree 1284/03, which regulates the above-mentioned law, was published on December 22, 2003. The Bank is among the financial institutions that adhered to the plan announced by the Argentine government and is now a participant in the mortgage refinancing system established by Law No. 25,798. Pursuant to the plan, it has been decided that a major part of our mortgage loan portfolio shall be sold to the Mortgage Refinancing Trust in exchange for Government securities.

Law No. 25,798, as amended and supplemented, imposes certain requirements on mortgage loans to be eligible for inclusion in the Mortgage Refinancing System. As regards the procedure laid down by the decrees regulating this law, Banco de la Nación Argentina (in its capacity as trustee) shall proceed to repay both outstanding and past-due principal installments by delivery in lieu of payment of bonds issued by Banco de la Nación for 60% of the resulting amount from the issuance, according to the following conditions:

- (i) date of issuance: May 1, 2004;
- (ii) date of maturity: November 1, 2006;
- (iii) term: two years and six months;
- (iv) currency: peso;
- (v) amortization: 5 equal and consecutive half-yearly installments, each for 20% of the amount issued;
- (vi) expiration of the first installment: November 1, 2004;
- (vii) interest rate: annual 2% over balances as from the date of issuance and payable once the six-month periods expire;
- (viii) placement price: 100% of the principal;
- (ix) negotiable instruments listed in *Mercado Abierto Electrónico* and securities exchanges and markets in Argentina.

The remaining 40% balance shall be repaid by delivery in lieu of payment of bonds issued by Banco de la Nación Argentina (in its capacity as trustee), according to the following conditions:

- (i) date of issuance: May 1, 2004;
- (ii) date of maturity: May 1 2014;
- (iii) term: 10 years;

- (iv) currency: peso;
- (v) amortization: 14 consecutive half-yearly installments, each of the first thirteen installments for 7% of the amount issued, and the last installment for 9%;
- (vi) interest rate: annual 5% over balances as of the date of issuance, payable once the six-month periods expire;
- (vii) placement price: 100% of the principal;
- (viii) negotiable instruments listed in *Mercado Abierto Electrónico* and securities exchanges and markets in Argentina.

Both bonds shall be represented in global certificates, to be deposited with Caja de Valores S.A.

On June 22, 2004, the Bank expressed its adhesion to the Mortgage Refinancing System and certified that the number of eligible loans included in the System amounted to 13,225 for a total amount of Ps.218,335, and the amount to be refinanced as of February 2004 in accordance with the terms of Law No. 25,798 was Ps.193,619. At the same time, the First Trust of New York National Association, the trustee of the BHN Master Mortgage Trust, expressed its adhesion to the System certifying 228 eligible loans included for a total amount of Ps.6,297, and as of February 2004, the amount to be refinanced in accordance with the terms of Law No. 25,798 was Ps.6,239. Such loans were securitized and the sole beneficiary of the proceeds is the Bank.

Once the system provided for in the Law No. 25,798, as amended and supplemented, has been implemented, the Bank shall be entitled to receive bonds issued by the trustee: i) for 60% of outstanding amounts, it shall receive notes maturing on November 1, 2006; and ii) for the remaining 40%, it shall receive notes maturing on November 1, 2014.

### **Creation, Perfection and Registration of Mortgages under Argentine Law**

Under Argentine law, a mortgage secures repayment of a debt by creating an interest in the property in favor of the mortgagee, although the property remains in the possession of the mortgagor. Mortgages may only be created on individually identified real property, by a certain and determined sum of money. Likewise a mortgage may secure a debt, which is conditional, future or indeterminate or otherwise uncertain in amount -in which case, an estimate shall be made in the act of creation of the mortgage- and need not be secured by real property owned by the principal debtor. The mortgage secures the principal amount of the debt as well as all costs and expenses, such as damages and interest, for which the debtor may become liable if the debtor fails to comply with the terms of the underlying credit agreement.

Mortgages are indivisible; each real property mortgaged securing a debt as well as each part of the real property secures the payment of all and each part of the debt. Nevertheless in the foreclosure of mortgaged real property, if the division in lots is possible, or if the guarantee comprehends separated real property, the court may order the foreclosure in lots, and partial cancellation of the mortgage, provided that this does not prejudice the mortgagee.

Mortgages can only be created by public deed. Typically, credit agreements and mortgages securing such credit are documented in the same public deed although it would be possible to instrument both agreements in separate documents. Public deeds are prepared by public notaries, who certify and witness certain matters of law and certain matters of fact as to which their participation creates a presumption of truth. The creditor whose credit is being secured should duly accept the creation of the mortgage, but the creditor may also accept it subsequently with effect as of the date of the creation of the mortgage. Also, upon creation of the mortgage, the debtor is able, with consent of the creditor, to reserve the right to constitute a preferred subsequent mortgage, expressing the amount it may reach.

The registration of a mortgage involves submitting a petition for its registration to the public real estate registry located in the jurisdiction where the property is situated. To register a mortgage, a public notary must have received the public deed evidencing ownership of the property from the owner of the property, and a report from the

real estate registry in the jurisdiction where the property is located named “*certificado de dominio*” (the “Real Estate Report”). The Real Estate Report is valid for 15, 25 or 30 calendar days from its issuance, depending on where the public notary is domiciled in relation to the property: in the city where the real estate registry is located, within the province where the real estate registry is located or outside the province where the real estate registry is located. At the time a Real Estate Report is issued, the real estate registry makes provisional registration of the mortgage, which lasts for 60, 70 or 75 calendar days, depending on how long the Real Estate Report remains valid. If the mortgage is registered within a limited time period from its creation (currently 45 days), the provisional registration becomes final and effective as of the date of execution of the relevant public deed; if not, the provisional registration automatically expires and if the mortgage is thereafter registered, such registration will be effective from the date it is actually filed.

Once registered, the mortgage is enforceable against third parties since the day of the granting of the mortgage if the registration was requested within 45 days from its creation, or from the day of its registration if the registration was requested after such period. Prior thereto, it is legally binding only between the contracting parties, their heirs and the persons that have intervened in the act, as the notary and witnesses, which are not able to invoke defects of registration, and in relation to them the mortgage created by public deed is deemed duly registered. Thus, the proper registration of a mortgage by a subsequent creditor with respect to certain property would give that subsequent mortgagee preference over any prior, unregistered mortgage created on that same property.

The registration of a mortgage expires 20 years after the date on which it was registered, although it may be renewed without the consent of the mortgagor. However, the registration of mortgages securing debt owed to us will not expire if registration is made before August 2, 2007. See “Foreclosure of Mortgage Loans—Procedures Under the Civil and Commercial Procedure Code—Privileges of the Bank.” Once perfected, a mortgage will remain in full force and effect until all amounts secured by the mortgage have been paid in full or the mortgage is otherwise canceled by agreement of the parties or by judicial order.

Pursuant to Central Bank regulations, in order for mortgage loans to be considered secured loans for purposes of calculating minimum capital requirements, diversification of the credit risk (*fraccionamiento del riesgo crediticio*) and loan charge-offs (*previsiones por riesgo de incobrabilidad*), financial entities are required to document mortgage loans in the form of book-entry negotiable mortgage instruments or *letras hipotecarias escriturales* (“Mortgage Instruments”). In order to produce said effects the Mortgage Instruments shall be executed substantially in the same form as provided by the Central Bank Communication “A” 3055. The Trust Law has created the Mortgage Instruments, as a new type of negotiable instruments secured by a Mortgage. The mortgages created under Mortgage Instruments are regulated by the regulatory framework described under “Regulatory Framework” herein. Mortgage Instruments were created to expedite and reduce the cost of transferring mortgages, to facilitate securitization activities and to simplify administrative procedures related to the transfer of mortgage loans. This expedited and less costly transfer results from the fact that the assignment of a Mortgage Instrument does not require the registration of the assignment in any real estate registry or the involvement of a notary public or the instrumentation of the assignment in a public deed. Mortgage Instruments are registered in the real estate registry and deposited with Caja de Valores S.A. or with Argentine banks or special purpose companies established by Argentine Banks. Caja de Valores is in charge of handling transfers in book-entry form and issuing receipts allowing the holder of the Mortgage Instrument to exercise its rights as mortgagee. The Bank has been voluntarily using the Mortgage Instruments since June 1998.

### **Assignment of Mortgages**

In general, Argentine law requires that every debtor be given notice of a credit assignment or acceptance thereof by the debtor for the assignment to be enforceable against the debtor. To enforce an assignment agreement against third parties, however, notarized notice of the assignment must be given. The failure to provide such notice by public means would allow the assignor’s creditors to argue successfully that the assignor and not the assignee owns the assigned credits. However, under the Trust Law, parties may agree that the requirement that notice of the assignment of the mortgage loan be given to it, in connection with certain transactions, including securitization transactions, provided that such securitizations result in a public offer of securities. In addition, the assignment must be registered with the relevant real estate registry, except with respect to Mortgage Instruments, in which case the assignment is noted in book-entry form by Caja de Valores, or the corresponding Argentine banks or special purpose companies established by Argentine Banks acting as registrar thereof, and a notice is not required to be given to the debtor by public means nor his consent is required to perfect such assignment.

## Foreclosure of Mortgage Loans

Since January 1995 there have been two systems relating to real property foreclosure procedures under Argentine law. As of February 2005, approximately 94.5% of the Bank's mortgage loans are subject to foreclosure procedures under the Civil and Commercial Procedure Code and approximately 5.5% are subject to the foreclosure procedures under the Trust Law.

On February 14, 2002, Law No. 25,563 amending the Bankruptcy Law (the "New Bankruptcy Law") was enacted. Under the New Bankruptcy Law, certain bankruptcies and foreclosures (including foreclosures on mortgage loans) would be suspended for a period of 180 days from the law's effective date. Such period was extended for 180 days more by Law No. 25,589 and afterwards for 90 days more by Law No. 25,640 of September 2002, expiring on February, 2003.

On February 4, 2003, the Executive Branch enacted Decree 204/2003 creating a mediation procedure, for a limited period of 90 days, to be conducted through the Emergency Legal Units (*Unidades de Emergencias Legales*) depending from the Ministry of Labor, Employment and Social Security and the Ministry of Production. Such Emergency Legal Units shall intervene at the request of debtors or creditors in the foreclosure.

The mediation procedure is voluntary and free. Proposals and negotiations made by the parties are subject to the confidentiality of ordinary mediations. The mediation procedure in no case will result in the suspension or interruption of the legal terms running in judicial or out-of-court foreclosure proceedings.

The Emergency Legal Units attempts to approximate the parties proposals to reach an agreement enabling the debtor the performance of his obligations without lessening the creditors rights. The intervention of the Emergency Legal Units concluded with an agreement or with the impossibility of reaching such agreement. The proceeding was in force for a period of 90 days.

The Emergency Legal Units will accept for mediation cases of foreclosures against individuals for originally borrowed amounts of up to Ps.50,000 or US\$50,000, provided that: (i) the debtor has already paid at least 20% of such amount; and (ii) the debtor presents a restructuring proposal evidencing its will to comply with his obligations under the loan.

Resolutions No. 84 of the Ministry of Labor, Employment and Social Security and No. 56 of the Ministry of Production, both dated February 14, 2003 provide that the proceeding implemented through the Emergency Legal Units does not repeal or modify the mediation judicial or out-of-court proceedings currently existing under Argentine law, but rather "complements" such existing proceedings.

On May 8, 2003, the Argentine Congress enacted Law 25,737 which suspended foreclosures until September 2, 2003. We and other financial institutions in Argentina voluntarily agreed not to foreclose on mortgage loans for the foreseeable future. Law No. 25,798, as amended and supplemented, providing for the establishment of a fund that will purchase defaulted mortgage loans was enacted on November 6, 2003. As currently proposed, this fund would purchase mortgage loans of certain borrowers and the government, through the fund, would become the borrower of record in respect of such loans. To qualify to participate in the fund a loan must meet certain conditions, including the following: (i) amounts borrowed must have been used to acquire or improve a primary residence (ii) the loan must have entered into default in the period from January 1, 2001 and September 11, 2003; (iii) the principal amount originally borrowed may not exceed Ps.100,000; and (iv) approval of the originating banks must be obtained. The law also provides for the creation of a committee to determine what loans are eligible to participate in the fund. The committee is proposed to include a representative of each of the Ministry of Economy, the Judiciary and of Banco Hipotecario, among others.

On November 3, 2005, Law No. 26,062 was enacted pursuant to which: (i) foreclosures of housing unites constituting the sole dwelling of debtors of eligible loans under Law 25,798 will be suspended for a period of 120 days, and (ii) a new period of 120 days is granted to adhere to the Mortgage Refinancing System.

On March 8, 2006 the Argentine government enacted Law No. 26,084 extending the term set forth in Law No. 26,062 for an additional 90-day period (as from March 4, 2006).

## *Procedures Under the Civil and Commercial Procedure Code*

### *General*

The procedures applicable in a judicial foreclosure proceeding differ depending on the Argentine court in which the action is commenced. However, a uniform set of rules set forth in the Civil and Commercial Procedure Code, described in the following paragraphs, applies to all judicial foreclosure proceedings instituted in the federal courts of Argentina and courts sitting in the City of Buenos Aires. Moreover, the rules and procedures applicable within other jurisdictions are, to a large extent, consistent with those applicable to the courts sitting in the City of Buenos Aires. Although filing times and other statutory periods vary significantly depending on the jurisdiction and the defenses raised by a particular debtor, based on our experience, foreclosure proceedings under the Civil and Commercial Procedure Code generally take one to four years to complete.

A judicial foreclosure proceeding commences with the filing of a complaint in the competent court, whereby the creditor attaches the public deed creating the mortgage (duly registered) to the complaint. The mortgagor is given five days from the date on which he is served with the summons in which to file a brief setting forth any admissible defenses he may have to the proceeding. The court will issue a judgment either immediately thereafter or following review of any evidence the court may have ordered to be produced to evaluate the validity of the mortgagor's defenses.

If the mortgagor does not file an appeal or the court's judgment is affirmed on appeal, the court's judgment becomes final and the actual foreclosure on the property takes place. The sale of the underlying real property is accomplished through a public auction taking place within the place of jurisdiction of the court or in the place where the real estate is located, for which purpose the court appoints an auctioneer. Prior to holding the auction, a Real Estate Report as to any liens that may have been perfected on the property and reports as to the existence of unpaid real estate taxes, water and sewage charges and condominium indebtedness (if applicable) must be obtained. Additionally, notice of the auction must be published in the Official Gazette for two days and in another publication circulated in the area where the property is located. The notice must contain, among other things, the date and time of the auction, the main characteristics of the property, the minimum sale price of the property, an indication of whether the property is presently occupied and the amount of any outstanding condominium expenses.

A minimum sale price for the property is established, which must be met or exceeded at the auction. In the absence of such an agreement between the mortgagor and mortgagee, the minimum sale price will equal two-thirds of the property's value as assessed for purposes of levying real estate taxes by the Argentine taxing authorities. If the property has not been assessed for real estate tax purposes, the court will appoint an expert to do so. The failure of the auctioneer to obtain the minimum price will result in a new auction at which the minimum sale price will be 25.0% less than the minimum price previously established. If the second auction fails, a third will be held at which no minimum sale price is established.

The bidder submitting the highest bid is awarded the property. Within three days following the award, the auctioneer must deposit all amounts received from the bidder toward the purchase price of the property into an account with the court and supply the court with all relevant information regarding the auction. The court must thereafter approve the sale and, if approved, the purchaser must deposit the balance of the purchase price with the court within five days. The mortgagee will have priority in relation to the proceeds of the auction price for cancellation of the secured debt. See "*—Priorities*". The failure of the purchaser to comply with that requirement will result in a new auction and the purchaser will be required to pay for any decline in the value of the property, additional accrued interest and other costs resulting therefrom.

The mortgagee is not prevented from participating in the auction as a bidder and subsequently purchasing the property if his bid is the highest. The mortgagee/purchaser may offset amounts owed him by the mortgagor against the amount of his bid upon informing the court of his intention to do so and avoid the requirement that the purchase price be deposited with the court. If the purchase price is insufficient to cancel the credit, the mortgagee may pursue a deficiency judgment for the outstanding balance.

### *Redemption Rights*

In a judicial foreclosure proceeding, the debtor has a redemption right, the exercise of which will prevent the sale of the property subject to the mortgage in a public auction. That right may be exercised at any time prior to the auction. To exercise this right, the mortgagor must deposit with the court an amount equal to the sum of the following: the principal amount of the secured debt, regulated fees, court fees paid to initiate the foreclosure proceeding and a prudent amount for interest and other costs which will be imposed on the debtor. The court will determine whether the amount so deposited is sufficient such that the sale of the property is no longer necessary and, provided such a determination is made, the court will order that the auction not take place. This decision cannot be appealed by the creditor and cannot be objected to by third parties (*e.g.*, interested or potential purchasers of the property).

If a purchaser at a judicial foreclosure deposits the purchase price for the property within five days from court approval of the auction, the debtor cannot exercise further rights of redemption. If such deposit is not made, Argentine law grants the debtor a second opportunity to recover the property, by depositing an amount sufficient: (i) to pay the mortgagee the principal and interest owed and to reimburse the mortgagee for its costs and (ii) to pay to the third party one and one-half times the earnest money to be applied towards the purchase price of the property actually paid by such third party and any auctioneer's fees.

### *Privileges of the Bank*

The Bank has maintained the privilege granted to its predecessor, Banco Hipotecario Nacional, or "BHN", to act in the capacity of auctioneer following a judicial auction order (instead of mandatorily using a court-appointed auctioneer). In the Bank's experience, this ability reduces the foreclosure period to less than one year and limits the transaction cost of realizing on the collateral by significantly reducing attorney and auctioneer fees. Whenever the Bank or a third party obtains a judicial order for the auction of real property over which the Bank holds a mortgage, the court issuing the order must notify the Bank, which in turn has 60 business days to elect to conduct the auction. If the Bank does not give notice to the court within such period that the Bank has decided to conduct the auction, the court shall continue with regular auction procedures with a court-appointed auctioneer.

The Bank has also maintained other procedural privileges such as the right to take possession of the mortgaged property, even when the property is not yet subject to auction procedures, whenever the value of the mortgaged property decreases as a consequence of abandonment or any other action taken by the debtor and the privilege of being directly awarded the mortgaged property at the minimum sale price established for the auction in the event the auctioneer fails to obtain such minimum price from third parties at the auction, in which case the Bank may pursue a deficiency judgment for the outstanding balance.

While registration of a mortgage with the real estate registry expires after 20 years if not renewed by the creditor, all mortgages registered in favor of the Bank prior to August 2007 will not expire. Mortgages registered in favor of the Bank after August 2007 will expire after 20 years.

The Privatization law maintained the priority of the Bank until August 2007 over all other creditors with respect to the proceeds from foreclosed property encumbered with a first priority mortgage in favor of the Bank. The Bank believes that this provision gives the Bank a priority even over tax claims and condominium expenses on a particular property, although the Bank has not attempted to enforce this priority in foreclosure proceedings conducted by it and the enforceability of such priority may be subject to material limitations.

All of these privileges will expire in August 2007.

### *Procedures Under Trust Law*

The Trust Law sets forth an out-of-court foreclosure procedure applicable if the parties have specifically agreed to apply such foreclosure procedure in the relevant public deed. Since enactment of the Trust Law in 1995, most mortgages granted in Argentina, and most mortgages granted by the Bank, have incorporated this procedure. Although times vary significantly depending on the jurisdiction and the defenses raised by a particular debtor, the Bank believes, based on its limited experience with this procedure, that foreclosure proceedings under the Trust Law generally take eight months to two years to complete.



For creditors to take advantage of this expedited procedure, the debtor must be at least sixty days in arrears on the payment of principal or interest. The creditor must then serve a written demand on the debtor for: (i) payment in full of all delinquent sums; and (ii) disclosure of name of all privileged creditors and occupants of the mortgaged property. Both (i) and (ii) shall be complied with within a certain period that cannot, in any event, be less than fifteen days. If the debtor fails to pay within the specified time period, the creditor becomes entitled to appear before a competent judge who, in turn, will serve notice on the debtor of the foreclosure proceedings and of the debtor's ability to raise, within five days thereafter, any permissible defenses to the action. The defenses which a debtor may have to preclude foreclosure include presentation of persuasive evidence in support thereof, these are:

- that the debtor is not in default;
- that the creditor did not make a demand for payment as required by the Trust Law;
- that the summary foreclosure proceeding was not agreed upon by the parties; and
- that serious inadequacies existed with respect to the publication requirements prior to the auction of the property.

Upon expiration of the five day time period in which the debtor may raise defenses, the creditor may hold a public auction for the sale of the property upon meeting certain publication requirements involving the appointment of the auctioneer by the creditor and notice of the auction. The notices must be published for three days in the Official Gazette and in two widely circulated newspapers, at least one of which must be in the area where the property is located. The final publication date cannot be more than two days prior to the date of the public auction. If the property in question is occupied and the debtor has failed to interject any permissible defense, the judge will order that the property be vacated within a ten-day period. The Trust Law specifically grants police the right to evict occupants prior to the actual foreclosure in the event the premises are not voluntarily vacated.

The minimum sale price for the auction shall be equivalent to the outstanding debt as of the date of the auction. The failure of the auctioneer to obtain the minimum price will result in the holding of a new auction at which the minimum sale price is 25.0% less than the price previously established. If the second auction also fails, a third auction will be held with no established minimum price.

If the mortgagee purchases the property in the auction, then that creditor may offset all amounts due it under the mortgage loan, including expenses attributable to the foreclosure proceedings, and deposit the balance, if any, with the court. Otherwise, all amounts obtained at the auction must be deposited with the judge, who thereafter will distribute amounts due to creditors and any remaining amounts to the debtor.

To prevent foreclosure proceedings, the debtor must either pay all amounts due within the initial fifteen-day demand period or raise a valid defense to the proceedings. If neither means is available, the debtor is precluded from challenging the proceedings until after the creditor's debt is settled. Nevertheless, regardless of the fact that a creditor may have successfully foreclosed on a debtor's property, the creditor will remain liable to the debtor for any wrongful action taken or omitted in connection with the foreclosure proceeding. Further, notwithstanding that the property was sold at the auction, within 30 days thereafter the debtor may recover possession of the property by payment to the purchaser of a sum equal to the price paid for the property at the auction, plus all expenses incurred in connection therewith up to an amount equivalent to three percent of the relevant mortgage loan.

## **Priorities**

Under Argentine law, priorities with respect to both real and personal property arise exclusively by operation of law.

The holder of a mortgage is granted a priority on the underlying real property as from the date on which the mortgage is formally created by instrument, to the extent a request for registration thereof has been submitted to the real estate registry, a Real Estate Report has been obtained and registration is made within the validity period by such report. See "—Creation, Perfection and Registration of Mortgages under Argentine Law." The scope of this priority includes all unpaid principal and interest thereon, including interest accrued throughout any judicial proceeding brought to foreclose on the mortgage, until all amounts are paid in full.

The credit extended by the holder of a duly registered first mortgage on real property has priority over all other credits subsequently secured by a mortgage on such real property. Thus, the priority among consecutively created mortgages, a concept specifically contemplated by Argentine law, is identical to the chronological order in which each mortgage is created and registered. Expenses incurred in connection with enforcement proceedings to which the property may be subject are given higher priority than the credit secured by a first mortgage. However, some other credits may take priority over the mortgagee's, provided they arose prior to the creation of the mortgage, namely:

- credits for real estate taxes;
- credits for common expenses of a building; and
- certain cases (such as mechanic's liens) in which creditors retain possession of the mortgaged property as guarantee for what is due to them in connection with such property (*derecho de retención*), so long as such retention existed at the time the mortgage was created.

Nevertheless, regarding credits for real estate taxes, a conflict between the mortgagee and the state regarding real estate taxes is quite rare, since a notary public will not issue a mortgage deed without having obtained a certification as to the absence of indebtedness for real estate taxes on the mortgaged property.

However, and as provided by the Privatization law, the Bank believes that when foreclosing on a property secured by a first mortgage, its priority is senior to all other creditors. See “—Foreclosure of Mortgage Loans Procedures Under the Civil and Commercial Procedure Code—Privileges of the Bank.”

### **Effects of Bankruptcy and Reorganization**

Argentine Law No. 24,522 as amended and supplemented (the Argentine Bankruptcy Law), enacted in 1995, contemplates two distinct forms of judicial insolvency proceedings: (i) reorganization (*concurso preventivo*), aimed at restructuring the debtor's liabilities pursuant to a plan, and (ii) liquidation (*quiebra*), aimed at identifying the debtor's assets and liabilities, liquidating the assets and distributing the proceeds therefrom among the debtor's creditors.

A reorganization proceeding may only be commenced voluntarily by a debtor that becomes unable to meet debt payments regularly. The debtor must submit the reasons for its inability to pay his debts as they fall due as well as a description of his probable ability to reorganize.

A liquidation proceeding that did not begin as a reorganization may be commenced voluntarily by the debtor or involuntarily upon the filing of a petition by any of his creditors. If the proceeding is filed by a creditor, such creditor must submit evidence that the debtor qualifies for bankruptcy and that the debtor has ceased payment of its debts.

The institution of reorganization and liquidation proceedings involving a mortgagor has consequences for a creditor with respect to certain aspects of a mortgage. Creditors whose debts are secured with a mortgage may foreclose on the assets underlying their security interest prior to the conclusion of the reorganization proceedings. In both a reorganization and a liquidation proceeding, a creditor who has the right to pursue non-judicial foreclosure proceedings may hold an auction of the underlying property; provided, however, that a report is submitted to the court within 20 days after the auction in which an accounting is set forth along with certain other information with the court. Similarly, judicial foreclosure proceedings may move ahead in both reorganization and liquidation proceedings upon receipt by the creditor of an order from the court permitting the continuation of the foreclosure proceeding. In a liquidation proceeding, an expedited procedure is available for creditors seeking to foreclose on property securing underlying debts.

In cases of need and evident urgency in reorganization proceedings, a judge may suspend an auction for a period of no more than 90 days when foreclosure would impede the continuance of the debtor's activities. If a court does not suspend a foreclosure proceeding, the secured creditor must post a bond as a guarantee to other creditors that later demonstrate that they had a senior privilege secured by the underlying collateral. The amount of such bond is set by the judge in its discretion and will be released upon acceptance by the court of the secured creditor's claim.

The commencement of either reorganization or liquidation proceedings will not suspend accrual of interest on the debt underlying the mortgage, although such interest may only be paid from the proceeds of the sale of the assets or property subject to the mortgage.

In addition to the credits discussed under “Priorities,” in a liquidation proceeding the mortgagee’s credit is junior in priority to credit for expenses directly related to the maintenance (during such bankruptcy proceedings) of the mortgaged property. However, in the Bank’s opinion, the special priority granted to it is also applicable to bankruptcy and reorganization procedures. See “—Foreclosure of Mortgage Loans—Procedures Under the Civil and Commercial Procedure Code—Privileges of the Bank.”

### **Deduction for Income Tax Purposes**

Law 25,402, enacted in January 2001, established that individuals and undivided estates may use as a credit to their income tax payment up to Ps.4,000 of the interest paid on mortgage loans granted after January 1, 2001, provided such loans were granted for the acquisition or construction of real state properties intended for residential use of the taxpayer.

### **Consequences of the Emergency Legislation issued on Foreign Denominated Currency Obligations and, particularly, on Mortgage Loans**

As a result of the public emergency status declared by the Argentine government on social, economic, administrative, financial and exchange aspects (Law No. 25,561) and the repeal of the US dollar-peso parity established by the Convertibility Law, certain measures were enacted that have had an adverse effect on the value of certain of our assets, such as the value, in terms of US dollars, of our dollar-denominated mortgage loans.

On February 3, 2002, the Executive Branch issued the Emergency Decree No. 214/2002, which, among other things, mandatorily converted virtually all debts, including dollar denominated mortgage loans, with Argentine financial institutions into pesos at a rate of Ps.1.0 per US\$1.0.

In addition, Decree No. 214/2002, as amended and supplemented, provides for the indexation of both deposits and debts by a referential stabilization coefficient (*Coeficiente de Estabilizacion de Referencia* or CER), which is published on a monthly basis by the Central Bank.

After a six-month grace period, debts were adjusted pursuant to an index based on consumer price variations in the preceding month. Likewise, Decree 762/2002 provides for the indexation of debts mandatorily converted into pesos by a coefficient of salary variation (*Coeficiente de Variación de Salarios* or CVS), excluding from the application of the CER certain loans, including mortgage loans, taking into consideration their amount and use of proceeds. The coefficient of salary variation is prepared and published by the National Institute of Statistics and Census while the interest rates are determined by the Executive Branch. Pursuant to Law No. 25,796 amending Law No. 25,713, the application of the CVS was discontinued effective as of April 1, 2004.

Since CER reflects the monthly fluctuations in the consumer price index, in connection with loans granted to individuals, doubts arose on the negative effect that inflation (reflecting increases in the consumer price index) might have on the performance of loan portfolios, since CER increases might not be followed by increases in the level of income of the mortgagors, resulting, then, on a greater number of non-performing loans and a deterioration of results of financial institutions. Therefore, several exceptions were introduced to the application of CER (for example, through Decrees 762/02 and 1242/02), until November 2002, when the Congress passed Law No. 25,713 (in force as of January 2003). Law No. 25,713 covers the following main aspects:

- (i) Law No. 25,713 ratifies that obligations originally denominated in foreign currency that were converted into peso-denominated obligations are subject to adjustment through CER, as of February 2003;
- (ii) Law No. 25,713 exempts from the application of CER, among others, the following loans:

- (a) loans granted to individuals, regardless of the use of funds, and secured through a mortgage created on primary residential property, up to the original amount of US\$250,000 or its equivalent in other foreign currency prior to its conversion into pesos;
  - (b) loans granted to individuals up to the original amount of US\$12,000 or its equivalent in other foreign currency prior to its conversion into pesos; and
  - (c) loans granted to individuals and secured through a pledge, up to the original amount of US\$30,000 or its equivalent in other foreign currency prior to its conversion into pesos.
- (iii) Law No. 25,713 states that as from October 1, 2002, obligations under loans mentioned in (ii) (a), (b) and (c) above are subject to adjustment by the CVS.
- (iv) Section 6 of Law 25,713 establishes a special regime applicable to debtors who are not exempted from CER and who, as of February 3, 2002, maintain an aggregate amount of indebtedness within the Argentine financial system not exceeding Ps.400,000 (the "Section 6 Debtors"). Such special regime has the following main features:
- Section 6 Debtors can compound to the principal the accrued amounts by application of CER as of September 30, 2002;
  - after having compounded CER accrued amounts to principal, as indicated in (iv) (a) above, the obligation must be restructured, rescheduling its term to maintain the amount of future installments, and also rescheduling the interest rate in accordance with the regulations to be issued by the Central Bank;
  - the first installment under the rescheduled obligation cannot exceed the amount of the last installment paid without rescheduling and subsequent installments must maintain the same amount plus the amounts resulting from application of CER; and
  - in the case of term loans, the accrued amounts by application of CER as of September 30, 2002, the creditor shall grant the debtor a grace period comprising, at least, five monthly installments or a single payment to be made 120 days after the payment was originally due; in addition, regardless of the mechanism set forth for the payment of the amounts resulting from the accrued CER, such amounts are subject to the applicable interest rates resulting from Central Bank regulations.

## DESCRIPTION OF THE NOTES

### General

Unless otherwise stated in the relevant pricing supplement, the notes are to be issued under an Indenture, entered into (as amended, supplemented or otherwise modified from time to time, the “Indenture”), among the Bank, HSBC Bank USA, National Association (formerly HSBC Bank USA), as trustee (in such capacity, the “Trustee,” which expression shall include any successor trustee under the Indenture), registrar (in such capacity, the “Registrar”), principal paying agent (in such capacity, the “Principal Paying Agent,” and together with any other paying agents under the Indenture, the “Paying Agents”) and transfer agent, and HSBC Bank Argentina S.A., as co-registrar (in such capacity, the “Co-Registrar”), paying agent and transfer agent. We may offer the notes issued under the program directly or through dealers and agents that we may designate from time to time in exchange for cash or surrender of other securities. The following summaries of certain provisions of the Indenture and the notes do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all of the provisions of the Indenture and the notes, including the definitions therein of certain terms. Capitalized terms not otherwise defined herein shall have the meanings given to them in the Indenture.

Notes may be issued from time to time in one or more Series. The notes of all Series outstanding at any one time under the program are limited to an aggregate principal amount of US\$1,200,000,000 (or its equivalent in a specified currency). Notes shall be issued in accordance with the provisions of Article 7 of the Negotiable Obligations Law. Notes of a Series will have such interest rate or interest rate formula, if any, Stated Maturity, Specified currency (each as defined below) and date of issue as shall be set forth in the applicable pricing supplement and agreed to by the Bank. The particular terms of each Series of notes, including the purchase price, currency of denomination and payment, Stated Maturity, interest rate and, if applicable, redemption, repayment and index provisions, will be set forth for each such issue in the notes and in the applicable pricing supplement. With respect to any particular note, the description of the notes herein is qualified in its entirety by reference to, and to the extent inconsistent therewith is superseded by, such note and the applicable pricing supplement.

The notes will qualify as “*obligaciones negociables*” under the Negotiable Obligations Law and are entitled to the benefits set forth therein and are subject to the procedural requirements thereof. The notes will constitute unsubordinated and unconditional obligations of the Bank and will rank at all times *pari passu* in right of payment with all other present and future unsecured and unsubordinated indebtedness of the Bank (other than obligations preferred by statute or by operation of law).

Unless previously redeemed, a note will mature on the date (the “Stated Maturity”) from 30 days to 30 years from its date of issue as specified on the face thereof and in the applicable pricing supplement.

Each note may be denominated in any currency (a “Specified Currency”) as shall be specified on the face thereof and in the applicable pricing supplement. Unless otherwise specified in the notes or the applicable pricing supplement, payments on each note will be made in the applicable Specified Currency in the country issuing the Specified Currency; *provided, however*, that in certain circumstances, payments on any such note denominated in a currency other than US dollars may be made in US dollars or Euros. See “—Payment of Principal and Interest.”

Each note will bear interest, if any, at the interest rate or interest rate formula set forth in the applicable pricing supplement. Unless otherwise indicated in the applicable pricing supplement, each note may bear interest at a fixed rate (a “Fixed Rate Note”) or at a rate determined by reference to an interest rate basis or other interest rate formula (a “Floating Rate Note”) or may bear no interest (a “Zero Coupon Note”). See “—Interest Rate.”

The notes may also be issued with principal and/or interest payable in one or more currencies different from the currency in which such notes are denominated or linked to an index and/or a formula. Dual Currency Notes and Indexed Notes may be issued to bear interest on a fixed or floating rate basis or on a non-interest bearing basis or a combination of such bases, in which case provisions relating to Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes or a combination thereof, respectively, shall, where the context so admits, apply to such Dual Currency or Indexed Notes. References herein to notes denominated in a Specified Currency shall, unless the context otherwise requires, include Dual Currency Notes payable in such Specified Currency.

The notes may be issued as Original Issue Discount Notes. An “Original Issue Discount Note,” including any Zero Coupon Note, is a note which is issued at a price lower than the principal amount thereof, and which provides that upon redemption (other than on the Stated Maturity) or acceleration of the Stated Maturity thereof, the amount payable to the holder of such note will be determined in accordance with the terms of such note, and will be an amount that is less than the amount payable on the Stated Maturity of such note. See “Taxation—United States Federal Income Taxation.”

Unless otherwise specified in the applicable pricing supplement, the notes will not be subject to any sinking fund and will not be redeemable prior to their Stated Maturity, except in the event of certain changes involving Argentine taxes, in each case as described under “Redemption and Repurchase” below.

The pricing supplement relating to each note will describe the following terms:

- the Specified Currency with respect to such note (and, if such Specified Currency is other than US dollars, certain other information relating to such note);
- the price (expressed as a percentage of the aggregate principal amount thereof) at which such note will be issued (the “Issue Price”);
- the date on which such note will be issued (the “Issue Date”);
- the Stated Maturity for such note;
- whether such note is a Fixed Rate Note, a Floating Rate Note or a Zero Coupon Note;
- if such note is a Fixed Rate Note, the rate per annum at which such note will bear interest, if any;
- the date or dates on which interest in respect of such note will be paid (each an “Interest Payment Date”);
- if such note is a Floating Rate Note, the applicable interest rate basis, if other than LIBOR or the Treasury Rate (as defined below);
- whether such note is an Original Issue Discount Note, and if so, the yield to maturity;
- whether such note may be redeemed at the option of the Bank, or repaid at the option of the holder, prior to the Stated Maturity and, if so, the Redemption Commencement Date, Repayment Date, Repayment Prices, Redemption Prices, Redemption Period and other provisions relating to such redemption or repayment;
- the Common Code numbers, the ISIN numbers and/or the CUSIP numbers;
- the name of any dealer or, if a syndicated offering, the syndicate members, involved in such issuance of notes; and
- any other terms of such note not inconsistent with the provisions of the Indenture. If specified in the applicable pricing supplement with respect to a Series of Notes, the Bank may from time to time, without the consent of holders of notes outstanding, create and issue further notes of such Series provided such further notes have the same terms and conditions as the notes of a Series in all respects (except for the first payment of interest, the date of issue and the issue price) and the further notes shall form a single Series with the previously outstanding Series of Notes. If specified in the applicable pricing supplement with respect to a Series of Notes, the Bank may from time to time, without the consent of holders of notes outstanding, consolidate the notes of a Series with one or more issues of other notes of the same or a different Series, whether or not originally issued in Euro, provided that such other notes have been redenominated into Euro (if not originally denominated in Euro) and otherwise have, in respect of all periods subsequent to such consolidation, the same terms and conditions as the notes of the Series into which the other issues are to be consolidated and the Bank shall promptly notify the holders of notes of the Series into which the other issues are to be consolidated, the holders of the notes to be consolidated, the Euro MTF and the Paying Agents thereof.

## **Form, Denomination and Transfer**

### *General*

Unless otherwise permitted by applicable law and specified in the applicable pricing supplement, notes may only be issued in registered form, without interest coupons, either (i) outside the United States in reliance on the exemption from registration provided by Regulation S or (ii) within the United States in reliance on Rule 144A or Section 4(2) of the Securities Act. Notwithstanding the foregoing and the provisions set forth below, notes may be issued in such other form or forms as shall be established by or pursuant to the relevant authorization for a Series and permitted by applicable law. Notes may also have such additional provisions, omissions, variations or substitutions as are not inconsistent with the provisions of the Indenture or with such authorization or pricing supplement and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as specified in the Indenture and as required to comply with any law or regulation or with the rules of any securities exchange or governmental agency or as may be determined by the Bank. All notes of a particular Series shall be otherwise substantially identical except as to denomination and as provided in the Indenture or in the authorization or pricing supplement.

Unless otherwise stated in the relevant pricing supplement, notes may be issued in the form of one or more global registered notes in an aggregate principal amount equal to the principal amount of the notes of such Series (a “Global Note”), which shall be exchangeable in the limited circumstances described below for notes in the form of certificated registered notes (“Certificated Notes”); or notes may be issued initially in the form of Certificated Notes, which shall be exchangeable in certain circumstances for beneficial interests in a Global Note.

Notes will be issued in such denominations as specified herein under “Transfer Restrictions” and in the applicable pricing supplement. Unless otherwise specified in the applicable pricing supplement, notes sold upon initial issuance in the United States shall be issued only in minimum denominations of US\$250,000 (or the approximate equivalent thereof in a Specified Currency, rounded down to a multiple of 1,000 units of such Specified Currency) and integral multiples of US\$50,000 (or 1,000 units of such Specified Currency) in excess thereof, except for notes sold in reliance on Rule 144A under the Securities Act, which may be in minimum denominations of US\$100,000 (or the approximate equivalent thereof in a Specified Currency, rounded down to a multiple of 1,000 units of such Specified Currency) and integral multiples of US\$50,000 (or 1,000 units of such Specified Currency) in excess thereof.

The Registrar shall maintain the definitive record (the “Register”) in which shall be recorded the names and addresses of holders of any notes, the note numbers and other details with respect to the issuance, transfer and exchange of the notes, unless otherwise stated in the relevant pricing supplement. No service charge will be made for any registration of transfer or exchange of the notes, but the Trustee, Registrar or any transfer agent may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

### **Global Notes**

#### *General*

Unless otherwise specified in the applicable pricing supplement, registered notes of the same Series sold in the United States will be represented, in whole or in part, by a global registered note deposited with or on behalf of DTC and registered in the name of its nominee and deposited with the HSBC Bank USA, National Association (formerly HSBC Bank USA) as custodian for DTC, for credit to the respective accounts of beneficial owners of the notes represented thereby (a “U.S. Global Note”). Restricted Global Notes (as defined below) and Regulation S Global Notes are U.S. Global Notes sold in reliance on specific registration exemptions of the Securities Act. U.S. Global notes will be subject to special restrictions and procedures referred to under “U.S. Global Notes” below.

If specified in the applicable pricing supplement, registered notes of the same Series sold outside the United States pursuant to Regulation S may be represented, in whole or in part, by a Regulation S Global Note deposited with or on behalf of a Common Depositary for Euroclear and Clearstream or a nominee thereof for credit to the respective accounts of beneficial owners of the notes represented thereby (an “International Global Note”). International Global Notes will be subject to special restrictions and procedures referred to under “International Global Notes” below.

### *U.S. Global Notes*

Unless otherwise specified in the applicable pricing supplement, notes that are sold in reliance on Rule 144A will be represented by a Global Note which will be deposited with a custodian for, and registered in the name of a nominee of, DTC (each, a “Restricted Global Note”). A Restricted Global Note (and any notes issued in exchange therefor) will be subject to certain restrictions on transfer set forth therein and in the Indenture and will bear the legend regarding such restrictions described under “Transfer Restrictions.”

Unless otherwise specified in the applicable pricing supplement, notes that are sold outside the United States in reliance on Regulation S will be represented by a Global Note which will be deposited with a custodian for, and registered in the name of a nominee of, DTC or deposited with a common depository outside the United States for Euroclear and Clearstream and registered in the name of such common depository or its nominee for the accounts of Euroclear and Clearstream (each, a “Regulation S Global Note”).

On or prior to the 40th day after the completion of the distribution of the notes of a Series represented in whole or in part by a Regulation S Global Note, a beneficial interest in such Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in a Restricted Global Note of the same Series, but only upon receipt by the Trustee (directly or through a transfer agent) of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is purchasing for its own account or accounts as to which it exercises sole investment discretion and that such person and each such account is a qualified institutional buyer within the meaning of Rule 144A, in each case in a transaction meeting the requirements of Rule 144A under the Securities Act and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction (a “Rule 144A Transfer Certificate”). After such 40th day, such certification requirement will no longer apply to such transfers.

Beneficial interests in a Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note of the same Series, whether before, on or after such 40th day, but only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S (a “Regulation S Transfer Certificate”) or Rule 144 under the Securities Act and that, if such transfer occurs on or prior to such 40th day, the interest transferred will be held immediately thereafter only through Euroclear or Clearstream. Any beneficial interest in a Global note that is transferred to a person who takes delivery in the form of an interest in another Global Note of the same Series will, upon transfer, cease to be an interest in the former Global Note and become an interest in the latter Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the latter Global Note for as long as it remains such an interest.

On or prior to the 40th day after the completion of the distribution of the notes of a Series represented in whole or in part by a Regulation S Global Note, investors may hold their interests in such Regulation S Global Note only through Euroclear or Clearstream, if such investors are participants in such systems, or indirectly through organizations which are participants in such systems. Thereafter, investors may also hold such interests through organizations other than Euroclear and Clearstream that are DTC Participants (as defined herein). Euroclear and Clearstream will hold interests in a Regulation S Global Note on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositories, which in turn will hold such interests in customers’ securities accounts in the depositories’ names on the books of DTC.

Notes initially sold in the United States to institutional accredited investors will be issued in the form of Certificated Notes. See “—Certificated Notes.”

### *Book-Entry System*

Upon the issuance of a U.S. Global Note, DTC will credit, on its internal book-entry system, the respective principal amounts of the individual beneficial interests represented by such U.S. Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the participating dealers (or, if none, the Bank). Ownership of beneficial interests in a U.S. Global note will be limited to persons who have accounts with DTC (each, a “DTC Participant”), or persons who hold interests through DTC Participants. Ownership of beneficial interests in the U.S. Global Notes will be shown on, and the transfer of that ownership will



be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants), which may include Euroclear and Clearstream, as described below.

For as long as DTC, or its nominee, is the registered owner or holder of a U.S. Global Note, DTC or such nominee, as the case may be, will be considered the sole owner and holder of the notes represented by such U.S. Global Note for all purposes under the Indenture and the notes. Except in the limited circumstances described in “Certificated Notes”, owners of beneficial interests in such U.S. Global Note will not be entitled to have any portions of such U.S. Global Note registered in their names, will not receive or be entitled to receive physical delivery of notes in certificated form and will not be considered the owners or holders of such U.S. Global Note (or any notes represented thereby) under the Indenture or the notes. If DTC is at any time unwilling or unable to continue as a depository for a U.S. Global Note, or ceases to be a “Clearing Agency” registered under the Exchange Act, and a successor is not appointed by the Bank within 90 days, the Bank will issue Certificated Notes in exchange for the relevant U.S. Global Note. In the case of Certificated Notes issued in exchange for Restricted Global Notes, such Certificated Notes will bear, and be subject to, the legend described under “Transfer Restrictions.” In addition, no beneficial owner of an interest in a U.S. Global Note will be able to transfer that interest except in accordance with DTC’s applicable procedures (in addition to those under the Indenture and, if applicable, those of Euroclear and Clearstream).

Investors may hold their interests in a Restricted Global Note directly through DTC, if they are DTC Participants, or indirectly through organizations which are DTC Participants.

Payments of the principal of and any premium, interest, Additional Amounts (as defined below) and other amounts on any U.S. Global Note will be made to DTC or its nominee as the registered owner thereof. Neither the Bank, the Trustee, the Registrar nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a U.S. Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Bank expects that DTC or its nominee, upon receipt of any payment in respect of a U.S. Global Note held by it or its nominee, will immediately credit DTC Participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such U.S. Global Note as shown on the records of DTC or its nominee. The Bank also expects that payments by DTC Participants to owners of beneficial interests in a U.S. Global Note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Transfers between DTC Participants will be effected in accordance with DTC’s procedures and will be settled in same-day funds. The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a U.S. Global Note to such persons may be limited. Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a U.S. Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate of such interest. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the notes described above and under “Transfer Restrictions,” cross-market transfers between DTC Participants, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected by DTC in accordance with DTC’s rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a U.S. Global Note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in a U.S. Global Note settled during such processing day will be reported to the relevant Euroclear or Clearstream participant on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a U.S. Global Note by or through a Euroclear or Clearstream participant to a DTC Participant will be received for value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

DTC has advised the Bank that it will take any action permitted to be taken by a holder of a U.S. Global Note (including the presentation of notes for exchange as described below) only at the direction of one or more DTC Participants to whose account with DTC interests in such U.S. Global Note are credits and only in respect of such portion of the aggregate principal amount of such U.S. Global Note as to which such DTC Participant or Participants has or have given such direction. However, if there is an Event of Default (as defined below) under a U.S. Global Note, at the request of the beneficial owner, DTC will exchange such U.S. Global Note for Certificated Notes (which will, in the case of Restricted Global Notes, bear the legend applicable to transfers pursuant to Rule 144A) which it will distribute to its Participants.

DTC has advised the Bank as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the U.S. Global Notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Bank, the Trustee, the Registrar nor any Paying Agent will have any responsibility for the performance by DTC, Euroclear and Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

#### *International Global Notes*

If specified in the applicable pricing supplement, registered notes of the same Series sold outside the United States in reliance on Regulation S, which are not part of any Series that is also offered in the United States, may be represented, in whole or in part, by an International Global Note that is deposited with or on behalf of a common depositary for Euroclear and Clearstream, or a nominee thereof, outside the United States for credit to the respective accounts of beneficial owners of the notes represented thereby.

Investors may hold their interests in an International Global Note through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream will hold interests in an International Global Note on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries.

So long as the common depositary, or its nominee, is the registered holder of an International Global Note, the common depositary or such nominee, as the case may be, will be considered the sole owner and holder of the notes represented by such International Global Note for all purposes under the Indenture and such notes. Owners of beneficial interests in an International Global Note will not be entitled to have any portion of such International Global Note registered in their names, will not receive or be entitled to receive delivery of Certificated Notes in exchange for their interests in an International Global Note and will not be considered the owners or holders of such International Global Note (or any notes represented thereby) under the Indenture or the notes. In addition, no

beneficial owner of an interest in an International Global Note will be able to transfer that interest except in accordance with applicable procedures of Euroclear and Clearstream (in addition to those under the Indenture).

Payments of the principal of and any premium, interest, Additional Amounts and other amounts on or in respect of any International Global Note will be made to the common depositary in accordance with such depositary's procedures, or to its nominee (or any successor thereto) as the registered owner thereof. Neither the Bank, the Trustee, the Registrar nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in the International Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

The Bank expects that each of Euroclear and Clearstream, upon receipt of any such payment in respect of an International Global Note held by a common depositary or its nominee, will immediately credit the participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such International Global Note as shown on the records of Euroclear or Clearstream, as the case may be. The Bank also expects that payments by participants to owners of beneficial interests in an International Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

All notes represented by an International Global Note will be offered and sold pursuant to Regulation S, and the restrictions on and procedures for transfer of beneficial interests in such International Global Note and any Restricted Global Note of the same series will be the procedures applicable to Regulation S Global Notes and Restricted Global Notes described under "U.S. Global Notes," with such modifications as may be specified in such notes and the applicable pricing supplement.

#### *Certificated Notes*

Notes initially sold to institutional accredited investors will be issued in the form of Certificated Notes. Such notes will be subject to certain restrictions on transfer set forth therein and in the Indenture and will bear the legend regarding such restrictions described under "Transfer Restrictions."

If specified in the applicable pricing supplement, notes in the form of Certificated Notes may be initially sold to QIBs and to persons outside the United States in reliance on Regulation S.

If (i) DTC or any depositary is at any time unwilling or unable to continue as a depositary for a Global Note as set forth under "Book-Entry System" or ceases to be a "Clearing Agency" registered under the Exchange Act (in the case of DTC or any successor thereto) and the Bank fails to appoint a qualified successor within 90 days after receiving notice of such inability or unwillingness, or (ii) there is an Event of Default (as defined below) under such notes, or as otherwise specified in the applicable pricing supplement, the Bank will issue and the Trustee will authenticate and deliver, in exchange for beneficial interests in such Global Note, Certificated Notes of the same Series and having an equal principal amount. Upon receipt of instructions from DTC to the Trustee, the Bank will cause the requested Certificated Notes to be prepared for delivery. In all cases, Certificated Notes delivered in exchange for interests in any Global Note or beneficial interests therein will be registered in the name, and issued in any approved denominations, requested by DTC or any depositary. In the case of Certificated Notes issued in exchange for any Restricted Global Note, such notes will be issued only in the minimum denominations and will bear the legend applicable to transfers pursuant to Rule 144A referred to under "Transfer Restrictions" (unless otherwise specified in the applicable pricing supplement or the Bank determines otherwise in accordance with applicable law).

In accordance with the written instructions of the Bank, the Trustee shall, upon the original issuance of any Series of notes, deliver each Certificated Note executed and authenticated as provided in the Indenture (a) to the applicable Dealer or its designee, or (b) in the case of a sale pursuant to an agreement with a syndicate of dealers, to the lead manager thereof or its designee, for the benefit of the purchaser of such note, or (c) in the case of a sale by the Bank directly to a purchaser, to such purchaser or its designee. Upon the original issuance of any Series of notes, the Registrar shall, with respect to any Certificated Note of such Series, record the person who is designated by the Dealer, the lead manager or the Bank, as the case may be, as the registered holder of such Certificated Note.

Subject to the restrictions and certifications described under “Transfer Restrictions” and in the relevant pricing supplement, and such reasonable and customary regulations as the Bank may from time to time prescribe, transfers of any Certificated Note in whole or in part must be made at the corporate trust office of the Trustee or its duly authorized agent or at the office of any other transfer agent that may be appointed by the Bank by delivery of such Certificated Note with the form of transfer thereon duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Bank and the Trustee or its duly authorized agent or any such other transfer agent, as the case may be, duly executed by the holder thereof or such holder’s attorney-in-fact duly authorized in writing. In exchange for any Certificated Note properly presented for transfer, the Trustee shall promptly authenticate and deliver or cause to be authenticated and delivered at its corporate trust office or the office of its duly authorized agent or at the office of any other transfer agent that may be appointed by the Bank, as the case may be, to the transferee or send by mail (at the risk of the transferee) to such address as the transferee may request, a Certificated Note or notes of the same Series, registered in the name of such transferee, for the same aggregate principal amount as was transferred. Subject to the requirements of minimum denomination set forth in the Indenture and any applicable pricing supplement, in the case of the transfer of any Certificated Note in part, the Trustee shall also promptly authenticate and deliver or cause to be authenticated and delivered at its corporate trust office or at the office of its duly authorized agent or at the office of any transfer agent that may be appointed by the Bank, as the case may be, to the transferor or send by mail (at the risk of the transferor) to such address as the transferor may request, a Certificated Note or notes of the same Series, registered in the name of the transferor, for the aggregate principal amount that was not transferred. Certificated Notes may also be exchanged for other Certificated Notes of the same Series in any authorized denominations and of equal aggregate principal amount of notes of such Series in accordance with the Indenture, subject to the requirements of minimum denomination set forth in the Indenture and in any applicable pricing supplement. No transfer or exchange of any Certificated Note shall be made unless the request for such transfer or exchange is made by the holder thereof or by a duly authorized attorney-in-fact at the Trustee’s corporate trust office or the office of its duly authorized agent or at the office of any other transfer agent that may be appointed by the Bank. Upon any such transfer or exchange, the Trustee shall cause the Registrar to make the appropriate entries in the Register reflecting such transfer or exchange.

Unless otherwise specified in the applicable pricing supplement, Certificated Notes acquired by QIBs pursuant to Rule 144A may be exchanged for beneficial interests in a Restricted Global Note representing notes of the same Series. In exchange for any such Certificated Note properly presented by a QIB for transfer, the Trustee will increase (or will cause the increase of) the amount of the relevant Restricted Global Note by the amount of such Certificated Note and will cause the Registrar to make the appropriate entries in the Register indicating a transfer of a beneficial interest to such QIB or to a DTC Participant specified by such QIB; *provided, however*, that before any such Certificated Note may be transferred to a person who takes delivery in the form of an interest in a Restricted Global Note, the transferor will be required to provide the Trustee with certain certificates, including a Rule 144A Transfer Certificate. Except as specified in this paragraph, Certificated Notes will not be exchangeable for interests in a Restricted Global Note.

Before any Certificated Note may be transferred to a person who takes delivery in the form of an interest in any Global Note, the transferor will be required to provide the Trustee with certain certificates, including a Rule 144A Transfer Certificate or a Regulation S Transfer Certificate, as the case may be. Any holder desiring to exchange a legended Certificated Note for a beneficial interest in a Global Note must certify that (i) in the case of a desired exchange to a beneficial interest in a Restricted Global Note, the holder thereof is a QIB and (ii) in the case of a desired exchange to a beneficial interest in a Regulation S Global Note, that the Certificated Note was purchased in a transaction complying with Regulation S (or such holder may certify alternatively that the transfer has been effected pursuant to Rule 144 under the Securities Act, if applicable).

Upon the transfer, exchange or replacement of such notes bearing the legend described under “Transfer Restrictions,” or upon specific request for removal of the legend on a note, the Bank will deliver only notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Bank such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Bank that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Neither the Registrar nor any transfer agent shall register the transfer of or exchange of Certificated Notes for a period of 15 days preceding the due date for any payment of interest on the note or during the period of 30 days

ending on the due date for any payment of principal on the note, or register the transfer of or exchange any notes previously called for redemption.

## **Interest Rate**

### *General*

Unless otherwise specified in the applicable pricing supplement and note, each Fixed Rate Note or Floating Rate Note (each as defined below) will bear interest from (and including) the date (the “Interest Commencement Date”) specified in the applicable pricing supplement or from the most recent Interest Payment Date (or, if such note is a Floating Rate Note and the Interest Reset Period is daily or weekly, from the day following the most recent Regular Record Date) (as each such term is defined below) to which interest on such note has been paid or duly provided for at the fixed rate per annum, or at the rate per annum determined pursuant to the interest rate formula, stated therein and in the applicable pricing supplement, until the principal thereof is paid or made available for payment. Interest will be payable on each Interest Payment Date and at Stated Maturity as specified under “Payment of Principal and Interest” below.

Each note bearing interest will bear interest at either (a) a fixed rate or (b) a variable rate determined by reference to an interest rate basis (including LIBOR (a “LIBOR Note”), the Treasury Rate (a “Treasury Rate Note”) or such other interest rate basis as is set forth in the applicable pricing supplement), which may be adjusted by adding or subtracting the Spread and/or multiplying by the Spread Multiplier. The “Spread” is the number of basis points specified in the applicable pricing supplement and note as being applicable to the interest rate for such note, and the “Spread Multiplier” is the percentage specified in the applicable pricing supplement and note as being applicable to the interest rate for such note. A Floating Rate Note may also have either or both of the following: (a) a maximum numerical interest rate limitation, or ceiling, on the rate of interest which may accrue during any interest period (a “Maximum Rate”); and (b) a minimum numerical interest rate limitation, or floor, on the rate of interest which may accrue during any interest period (a “Minimum Rate”).

“Business Day” means, with respect to any note, unless otherwise specified in the applicable resolution of the board of directors, an applicable Bank Order pursuant to resolutions of the board of directors, the applicable pricing supplement, or, if applicable, a supplemental indenture, establishing the notes of a Series, any day except a Saturday, Sunday or other day on which commercial banks and foreign exchange markets are authorized or obligated by law to close in (a) the place where any payment with respect to such note is to be made (and in the case of a note denominated in Euro, which day is also a TARGET Business Day), (b) with respect to any note denominated in US dollars, New York City, (c) with respect to any note denominated in any currency other than US dollars or Euro, in London and in the principal financial center of the country issuing such currency or (d) with respect to a LIBOR Note, London (and in the case of a LIBOR Note, which day is also a London Banking Day).

“London Banking Day” means any day on which dealings in deposits in US dollars are transacted in the London interbank market.

“Index Maturity” means, with respect to a Floating Rate Note, the period to maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable pricing supplement and note.

“TARGET Business Day”: any day that is not (a) a Saturday or Sunday or (b) any other day on which the Trans-European Real-time Gross Settlement Operating System (or any successor settlement system) is not operating.

Unless otherwise specified in the applicable pricing supplement, HSBC Bank USA, National Association (formerly HSBC Bank USA), will be the calculation agent (the “Calculation Agent,” which expression shall include any other duly authorized calculation agent) with respect to the Floating Rate Notes.

### *Fixed Rate Notes*

Fixed Rate Notes shall bear interest from (and including) the Interest Commencement Date specified in the applicable pricing supplement at the rate or rates per annum so specified (the “Fixed Rate(s) of Interest”) payable in arrears on the Interest Payment Date(s) in each year and on the Stated Maturity so specified if that does not fall on

an Interest Payment Date. The first payment of interest will be made on the Interest Payment Date next following the Interest Commencement Date and, if the period from the Interest Commencement Date to the Interest Payment Date differs from the period between subsequent Interest Payment Dates, will equal the “Initial Broken Amount” specified in the applicable pricing supplement. If the Stated Maturity is not an Interest Payment Date, interest from and including the preceding Interest Payment Date (or the Interest Commencement Date, as the case may be) to (but excluding) the Stated Maturity will equal the “Final Broken Amount” specified in the applicable pricing supplement.

Unless otherwise specified in the applicable pricing supplement, interest on Fixed Rate Notes shall be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

#### *Floating Rate Notes*

*General.* The applicable pricing supplement relating to a Floating Rate Note will designate an interest rate basis (the “Interest Rate Basis”) for such Floating Rate Note. The Interest Rate Basis for each Floating Rate Note will be: (a) LIBOR, in which case such note will be a LIBOR Note; (b) the Treasury Rate, in which case such note will be a Treasury Rate Note; or (c) such other interest rate basis as is set forth in such pricing supplement. The pricing supplement for a Floating Rate Note will also specify, if applicable, the Calculation Agent, the Index Maturity, the Spread and/or Spread Multiplier, the Maximum Rate, the Minimum Rate, the initial interest rate (the “Initial Interest Rate”), the Interest Payment Dates, the Stated Maturity, the Regular Record Dates, the Calculation Dates (as defined below), the Interest Determination Dates (as defined below), the Interest Reset Period (as defined below) and the Interest Reset Dates (as defined below) with respect to such note.

The rate of interest on each Floating Rate Note will be reset and become effective daily, weekly, monthly, quarterly, semi-annually or annually or otherwise, as specified in the applicable pricing supplement and note (each an “Interest Reset Period”); *provided, however*, that (a) the interest rate in effect from the date of issue to the first Interest Reset Date with respect to a Floating Rate Note will be the Initial Interest Rate (as set forth in the note and the applicable pricing supplement) and (b) unless otherwise specified in the note and the applicable pricing supplement, the interest rate in effect for the ten days immediately prior to Stated Maturity of a note will be that in effect on the tenth day preceding such Stated Maturity. The dates on which the rate of interest will be reset (each an “Interest Reset Date”) will be specified in the applicable pricing supplement. If any Interest Reset Date for any Floating Rate Note would otherwise be a day that is not a Business Day with respect to such Floating Rate Note, the Interest Reset Date for such Floating Rate note shall be postponed to the next day that is a Business Day with respect to such Floating Rate Note, except that, in the case of a LIBOR Note, if such Business Day is in the next succeeding calendar month, such Interest Reset Date shall be the next preceding Business Day.

Unless otherwise specified in the applicable pricing supplement, “Interest Determination Dates” will be as set forth below. The Interest Determination Date pertaining to an Interest Reset Date for a LIBOR Note (the “LIBOR Interest Determination Date”) will be the second Business Day preceding such Interest Reset Date. The Interest Determination Date pertaining to an Interest Reset Date for a Treasury Rate Note (the “Treasury Interest Determination Date”) will be the day of the week in which such Interest Reset Date falls and on which Treasury bills would normally be auctioned. Treasury bills are usually sold at auction on the Monday of each week, unless that day is a legal holiday, in which case the auction is usually held on the following Tuesday, except that such auction may be on the preceding Friday. If, as the result of a legal holiday, an auction is so held on the preceding Friday, such Friday will be the Treasury Interest Determination Date pertaining to the Interest Reset Date occurring in the next succeeding week. If an auction date shall fall on any Interest Reset Date for a Treasury Rate Note, then such Interest Reset Date shall instead be the first Business Day immediately following such auction date.

All percentages resulting from any calculations referred to in this offering memorandum will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (e.g., 9.876545% (or 09876545) being rounded to 9.87655% (or 0987655)), and all Specified Currency amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent rounded upward) or nearest equivalent in Specified Currencies other than US dollars.

In addition to any Maximum Rate which may be applicable to any Floating Rate Note pursuant to the above provisions, the interest rate on Floating Rate Notes will in no event be higher than the maximum interest rate permitted by applicable law.

Upon the request of the holder of any Floating Rate Note, the Calculation Agent will provide the interest rate then in effect, and, if determined, the interest rate which will become effective on the next Interest Reset Date with respect to such Floating Rate Note. The Calculation Agent's determination of any interest rate will be final and binding in the absence of manifest error.

The Calculation Agent will cause notice of the rate of interest and the amount of interest for each interest period and the relevant Interest Payment Date to be given to the Bank and the Trustee as soon as possible after their determination but in no event later than the fourth Business Day thereafter and, in the case of notes listed on the Euro MTF, no later than the first day of the relevant Interest Reset period. Such notice will be in accordance with the provisions of the notes relating to notices to holders of notes. See "—Notices." The amount of interest and the Interest Payment Date may subsequently be amended (or appropriate alternative arrangements as may be made by way of adjustment) without notice in the event of an extension or shortening of the Interest Reset Period.

The manner in which the interest rate for any Floating Rate Note that is not a LIBOR Note or a Treasury Rate Note will be determined as set forth in such note and in the applicable pricing supplement.

#### *LIBOR Notes*

LIBOR Notes will bear interest at the interest rates (calculated with reference to LIBOR and the Spread and/or Spread Multiplier, if any, subject to the Maximum Rate or the Minimum Rate, if any), and will be payable on the dates, specified on the face of the LIBOR Note and in the applicable pricing supplement.

Unless otherwise indicated in the applicable pricing supplement and note, LIBOR with respect to any Interest Reset Date will be determined by the Calculation Agent in accordance with the following provisions. On the relevant LIBOR Interest Determination Date, LIBOR will be determined on the basis of either of the following, as specified in the applicable pricing supplement:

(a) the offered rates for deposits in the Specified Currency having the specified Index Maturity, commencing on the next succeeding Interest Reset Date, which appear on the display designated as page "LIBOR" on the Reuters Monitor Money Rates Service (or such other page as may replace the LIBOR page on that service for the purpose of displaying London interbank offered rates of major banks for deposits in the Specified Currency) ("Reuters Screen LIBOR Page") as of 11:00 A.M., London time, on such LIBOR Interest Determination Date. If at least two such offered rates appear on the Reuters Screen LIBOR Page, LIBOR with respect to such Interest Reset Date will be the arithmetic mean of such offered rates as determined by the Calculation Agent. If fewer than two offered rates appear, LIBOR with respect to such Interest Reset Date will be determined as described in (c) below; or

(b) the offered rates for deposits in the Specified Currency having the specified Index Maturity, commencing on the next succeeding Interest Reset Date, which appear on the display designated as Page 3740 or Page 3750, as applicable, on the Dow Jones Telerate Service (or such other page as may replace any such page on that service for the purpose of displaying London interbank offered rates of major banks for deposits in the Specified Currency) (each a "Telerate Page") as of 11:00 A.M., London time, on such LIBOR Interest Determination Date. If no such offered rate appears, LIBOR with respect to such Interest Reset Date will be determined as described in (c) below.

If neither a Reuters Screen LIBOR Page nor a Telerate Page is specified in the applicable pricing supplement, LIBOR will be determined as if a Telerate Page had been so specified.

With respect to a LIBOR Interest Determination Date on which fewer than two offered rates for the applicable Index Maturity appear on the Reuters Screen LIBOR Page as described in (i)(a) above, or on which no rate appears on Telerate Page 3740 or 3750, as the case may be, as described in (i)(b) above, as applicable, LIBOR will be determined on the basis of the rates at approximately 11:00 A.M., London time, on such LIBOR Interest Determination Date at which deposits in the Specified Currency having the specified Index Maturity are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the Calculation Agent (after consultation with the Bank) commencing on the second Business Day immediately following such LIBOR Interest Determination Date and in a principal amount equal to an amount of not less than US\$1,000,000 (or its approximate equivalent

in a Specified Currency other than US dollars) that in the Bank's judgment is representative for a single transaction in such market at such time (a "Representative Amount"). The Calculation Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two such quotations are provided, LIBOR with respect to such Interest Reset Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, LIBOR with respect to such Interest Reset Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., New York City time, on such LIBOR Interest Determination Date by three major banks in The City of New York, selected by the Calculation Agent (after consultation with the Bank), for loans in the Specified Currency to leading European banks having the specified Index Maturity commencing on the Interest Reset Date and in a Representative Amount; *provided, however*, that if fewer than three banks selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, LIBOR with respect to such Interest Reset Date will be LIBOR in effect on such LIBOR Interest Determination Date.

*Treasury Rate Notes.* Treasury Rate Notes will bear interest at the interest rates (calculated with reference to the Treasury Rate and the Spread and/or Spread Multiplier, if any, subject to the Maximum Rate or Minimum Rate, if any) and will be payable on the dates specified on the face of the Treasury Rate Note and in the applicable pricing supplement. Unless otherwise specified in the applicable pricing supplement and note, the "Calculation Date" with respect to a Treasury Interest Determination Date will be the tenth day after such Treasury Interest Determination Date or, if any such day is not a Business Day, the next succeeding Business Day.

Unless otherwise indicated in the applicable pricing supplement and note, "Treasury Rate" means, with respect to any Interest Reset Date, the rate for the auction on the relevant Treasury Interest Determination Date of direct obligations of the United States ("Treasury Bills") having the specified Index Maturity as published in H.15(519) under the heading "U.S. Government Securities/Treasury Bills Auction average (investment)" or, if not so published by 3:00 P.M., New York City time, on the relevant Calculation Date, then the auction average rate (expressed as a bond equivalent, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) for such auction as otherwise announced by the United States Department of the Treasury. In the event that the results of such auction of Treasury Bills having the Index Maturity are not published or reported as provided above by 3:00 P.M., New York City time, on such Calculation Date, or if no such auction is held during such week, then the Treasury Rate shall be the rate set forth in H.15(519) for the relevant Treasury Rate Interest Determination Date for the specified Index Maturity under the heading "U.S. Government Securities Treasury Bills/Secondary Market." In the event such rate is not so published by 3:00 P.M., New York City time, on the relevant Calculation Date, the Treasury Rate with respect to such Interest Reset Date shall be calculated by the Calculation Agent and shall be a yield to maturity (expressed as a bond equivalent, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the arithmetic mean of the secondary market bid rates as of approximately 3:30 P.M., New York City time, on such Treasury Interest Determination Date, of three primary United States government securities dealers in The City of New York selected by the Calculation Agent (after consultation with the Bank) for the issue of Treasury Bills with a remaining maturity closest to the specified Index Maturity; *provided, however*, that if fewer than three dealers selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, the Treasury Rate with respect to such Interest Reset Date will be the Treasury Rate in effect on such Treasury Interest Determination Date.

#### *Accrual of Interest; Interest on Overdue Amounts*

Each note (or in the case of the redemption of only part of a note, that part only of such note) will cease to bear interest (if any) from Stated Maturity or the Optional Redemption Date (as defined below) unless, upon due presentation thereof, payment of principal is improperly withheld or refused. If all or a portion of the principal amount of any note (other than an Original Issue Discount note) shall not be paid when due (whether at Stated Maturity or, in the case of Floating Rate Notes, on the Interest Payment Date falling in the specified redemption month, upon redemption or acceleration or otherwise) such overdue principal amount shall continue to bear interest at the rate of interest specified in the applicable pricing supplement until payment thereof has been made or duly provided for in full. In the case of Original Issue Discount Notes, as from Stated Maturity or any other due date for repayment of such notes, any overdue amount payable on such notes shall bear interest at a rate per annum (expressed as a percentage) equal to the yield to maturity (as set forth in the applicable pricing supplement), computed on the basis of a 360-day year of twelve 30-day months, until all amounts due in respect of such notes have been paid or duly provided for.



## Payment of Principal and Interest

### *General*

Unless otherwise specified in the note or the applicable pricing supplement, the first payment of interest on any note originally issued between a Regular Record Date and an Interest Payment Date will be made on the Interest Payment Date following the next succeeding Regular Record Date to the registered owner at the close of business on such next succeeding Regular Record Date. Unless otherwise indicated in the applicable pricing supplement and note, the “Regular Record Date” with respect to any note shall be the date 15 calendar days prior to each Interest Payment Date, whether or not such date shall be a Business Day in The City of New York.

Except as otherwise provided below, interest will be payable on the date or dates specified in the applicable pricing supplement and at Stated Maturity.

Payments of interest on any Fixed Rate Note or Floating Rate Note with respect to any Interest Payment Date will include interest accrued to but excluding such Interest Payment Date; *provided, however*, that, unless otherwise specified in the note and the applicable pricing supplement, if the Interest Reset Dates with respect to any Floating Rate note are daily or weekly, interest payable on such note on any Interest Payment Date, other than interest payable on the date on which principal on any such note is payable, will include interest accrued to but excluding the day following the next preceding Regular Record Date.

With respect to a Floating Rate Note, accrued interest from the date of issue or from the last date to which interest has been paid is calculated by multiplying the principal or face amount of such Floating Rate Note by an accrued interest factor. Such accrued interest factor is computed by adding the interest factor calculated for each day from the date of issue, or from the last date to which interest has been paid, to but excluding the date for which accrued interest is being calculated. Unless otherwise specified in the applicable pricing supplement and note, the interest factor (expressed as a decimal) for each such day is computed by dividing the interest rate (expressed as a decimal) applicable to such date by 360, in the case of LIBOR notes, or by the actual number of days in the year, in the case of Treasury Rate Notes.

Unless otherwise specified in the applicable pricing supplement, if any Interest Payment Date (other than the Stated Maturity) for any Floating Rate Note would otherwise be a day that is not a Business Day in the relevant locations specified in the pricing supplement and the place of payment, such Interest Payment Date shall be the next Business Day succeeding such Business Day (except that, in the case of a LIBOR Note, if such Business Day is in the next succeeding calendar month, such Interest Payment Date shall be the next Business Day preceding such Business Day). If the Stated Maturity for any Fixed Rate Note or Floating Rate Note or the Interest Payment Date for any Fixed Rate Note falls on a day which is not a Business Day in the relevant locations specified in the pricing supplement and the place of payment, payment of principal (and premium, if any) and interest with respect to such note will be made on the next succeeding Business Day in the place of payment with the same force and effect as if made on the due date and no interest on such payment will accrue from and after such due date.

Interest (and principal, if any, payable other than at Stated Maturity or upon acceleration or redemption) will be payable to the person in whose name a note is registered at the close of business on the Regular Record Date next preceding each Interest Payment Date notwithstanding the cancellation of such notes upon any transfer or exchange thereof subsequent to such Record Date and prior to such Interest Payment Date; *provided, however*, (i) that if and to the extent the Bank shall default in the payment of the interest (including Additional Amounts) due on such Interest Payment Date, such defaulted interest (including Additional Amounts) shall be paid to the person in whose names such notes are registered at the end of a subsequent record date established by the Bank by notice given by mail by or on behalf of the Bank to the holders of the notes not less than 15 days preceding such subsequent record date, such record date to be not less than 15 days preceding the date of payment in respect of such defaulted interest, and (ii) that interest payable at Stated Maturity or upon acceleration or redemption will be payable to the person to whom principal shall be payable.

Payments of the principal of and any premium, interest, Additional Amounts and other amounts on or in respect of any Global Note (other than an International Global Note) will be made to DTC, in accordance with DTC procedures, or to its nominee (or any successor thereto) as the registered owner thereof. Neither the Bank, the Trustee, the Registrar nor any Paying Agent will have any responsibility or liability for any aspect of the records

relating to or payments made on account of beneficial interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests. Payments of the principal of and any premium, interest, Additional Amounts and other amounts on any International Global Note will be made to the common depositary for Euroclear and Clearstream, in accordance with such depositary's procedures, or its nominee (or any successor thereof) as the registered owner thereof.

Payments of the principal of and any premium, interest, Additional Amounts and other amounts on or in respect of any Certificated Note at Stated Maturity or upon acceleration or redemption will be made to the registered holder on the payment date in immediately available funds upon surrender of such note at the corporate trust office of the Trustee, in the Borough of Manhattan, The City of New York, or at the office of any Paying Agent in Buenos Aires or in Luxembourg by a check drawn on, or by transfer to an account maintained by the registered holder with, a bank located in New York City (or, in the case of a note denominated in a Specified Currency other than US dollars, outside the United States). Payments of the principal of and premium, interest, Additional Amounts and any other amounts on or in respect of Certificated Notes to be made other than at Stated Maturity or upon redemption will be made by check drawn on a bank in New York City (or, in the case of a note denominated in a Specified Currency other than US dollars, outside the United States) mailed on or before the due date for such payment to the address of the person entitled thereto as it appears in the Register; *provided, however*, that a holder of US\$1,000,000 (or the approximate equivalent thereof in a Specified Currency other than US dollars) in aggregate principal amount of Certificated Notes of the same Series shall be entitled to receive such payment by wire transfer in immediately available funds to an account maintained by such holder at a bank located in New York City (or, in the case of a note denominated in a Specified Currency other than US dollars, outside the United States) as may have been appropriately designated by such person to the Trustee in writing no later than 15 days prior to the relevant Interest Payment Date. Unless such designation is revoked, any such designation made by such person with respect to such Certificated Note will remain in effect with respect to any future payments with respect to such Certificated Note payable to such person.

#### *Specified Currency Other Than US Dollars*

If any note is to be denominated in a Specified Currency other than US dollars, certain provisions with respect thereto will be set forth in the applicable note and in the related pricing supplement, which will specify the foreign currency or currency unit in which the principal or any premium or interest with respect to such note are to be paid, along with any other terms relating to the non-US dollar denomination.

If the Bank offers Indexed Notes or Dual Currency Notes, the applicable pricing supplement and such indexed Notes or Dual Currency Notes will set forth the method by and the terms on which the amount of principal (payable on or prior to Stated Maturity), interest and/or any premium, will be determined, any additional tax consequences to the holder of such note, a description of certain risks associated with investment in such note and other information relating to such note.

Unless otherwise specified in the applicable pricing supplement, notes denominated in a Specified Currency other than US dollars will provide that, in the event of an official redenomination of the Specified Currency, the obligations of the Bank with respect to payments on such notes shall, in all cases, be deemed immediately following such redenomination to provide for payment of that amount of the redenominated Specified Currency representing the amount of such obligations immediately before such redenomination.

Unless otherwise specified in the applicable pricing supplement, a beneficial owner of notes held in DTC's book-entry settlement system denominated in a Specified Currency other than US dollars, electing to receive payments of principal or any premium or interest in the Specified Currency must notify the participant through which its interest is held on or prior to the applicable Regular Record Date, in the case of payment of interest, and on or prior to the sixteenth day prior to Stated Maturity (in the case of Fixed Rate Notes or Original Issue Discount Notes) or the final Interest Payment Date (in the case of Floating Rate Notes, in the case of principal or premium, if any) of such beneficial owner's election to receive all or a portion of such payment in such currency. Such participant must notify DTC of such election prior to the third Business Day after such Regular Record Date. DTC will notify the Trustee of such election on or prior to the fifth Business Day after such Regular Record Date. If complete instructions are received by a participant and forwarded by the participant to DTC, and by DTC to the Trustee, on or prior to such dates, the beneficial owner will receive payments in the Specified Currency directly from the Trustee by check mailed on or before the payment date to the address specified for the payment.

Unless otherwise specified in the applicable pricing supplement in the case of an official redenomination of a specified currency other than US dollars, if payment in respect of a note is required to be made in a Specified Currency other than US dollars and such currency is unavailable on the date payment is due as a result of the imposition of exchange controls or other circumstances beyond the Bank's control, or is no longer used by the government of the country issuing such currency or for settlement of transactions by public institutions of or within the international banking community, then all payments in respect of such note shall be made in US dollars until such currency is again available or so used. The amounts so payable on any payment date in such currency shall be converted into US dollars (i) in the case of interest payments, on the basis of the Paying agent's bid (US dollar offer) quotation, for such Specified Currency, and, in the case of principal payments, on the basis of the Paying Agent's offer (US dollar bid) quotation, at or prior to 11:00 a.m. New York time, for such Specified Currency or (ii) if no such rate is quoted for any reason, the rate determined by the Paying Agent based on a quotation or an average of quotations given to the Paying Agent by commercial banks which conduct foreign exchange operations or based on such other method as the Paying Agent may determine without liability on its part to the Bank or to any holder, to calculate a market exchange rate (in any such event, the "Market Exchange Rate") on the second Business Day prior to such payment date, in each case as notified to the Bank by the Paying Agent. In the event that the Market Exchange Rate is not available on the second Business Day prior to the payment date, the rate at which the amount due shall be converted into US dollars shall be such rate as may be agreed to at such time by the Bank and the Paying Agent. The making of any payment in respect of any note in US dollars under the foregoing circumstances will not constitute an Event of Default under such note.

Unless otherwise specified in the applicable pricing supplement, (i) a note denominated in Euro may only be presented for payment on a day on which the TARGET system is operating and (ii) if interest is required to be calculated for a period of less than one year, unless otherwise specified in the applicable pricing supplement, it will be calculated on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed fall in a leap year, the sum of (A) the number of those days falling in a leap year divided by 366 and (B) the number of those days falling in a non-leap year divided by 365).

## **Redemption and Repurchase**

### *Redemption at Maturity*

Unless previously redeemed, or purchased and canceled, notes shall be redeemed at their principal amount (or at such other redemption amount as may be specified in the applicable pricing supplement) ("Redemption Amount") in the relevant Specified Currency (except as otherwise set forth in the terms and conditions of such notes and the applicable pricing supplement) on the date or dates specified in the applicable pricing supplement or, in the case of Floating Rate Notes, on the Interest Payment Date falling in the redemption month so specified.

### *Early Redemption for Taxation Reasons*

The notes of any Series may be redeemed at the option of the Bank in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (which shall be irrevocable) to the Trustee and, if applicable, the CNV, in writing, at the principal amount thereof (or, in the case of Original Issue Discount Notes, at the Amortized Face Amount (as defined below) thereof), together with any accrued but unpaid interest and any Additional Amounts to the date fixed for redemption (which date, in the case of Floating Rate Notes, must be an Interest Payment Date), if, as a result of any change in, or amendment to, the laws (or any regulations or rulings issued thereunder) of Argentina or any political subdivision of or any taxing authority in Argentina or any change in the application, administration or official interpretation of such laws, regulations or rulings, including, without limitation, the holding of a court of competent jurisdiction, the Bank has or will become obligated to pay Additional Amounts and/or Argentine Taxes on or in respect of such notes, which change or amendment becomes effective on or after the date of original issuance of the notes of such Series, and the Bank determines in good faith that such obligation cannot be avoided by the Bank taking reasonable measures available to it. Prior to the distribution of any notice of redemption pursuant to this paragraph, the Bank shall deliver to the Trustee a certificate signed by a duly authorized officer of the Bank stating that the Bank has or will become obligated to pay Additional Amounts and/or Argentine Taxes as a result of such change or amendment, and that such obligation cannot be avoided by the Bank taking reasonable measures available to it, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent contained in the preceding sentence, in which event it shall be conclusive and binding on the holders.

### *Redemption at the Option of the Bank*

If so specified in the applicable pricing supplement, the Bank may, subject to compliance with all relevant laws and regulations, having given (unless otherwise specified in the applicable pricing supplement) not more than 60 nor less than 30 days' notice to the holders of the notes in accordance with the provisions governing the giving of notices set forth below (which notice shall be irrevocable) and to the Trustee and, if applicable, the CNV, redeem all or only some of the notes then outstanding on the dates (the "Optional Redemption Date(s)") and at the amounts (the "Optional Redemption Amount(s)") specified in, or determined in the manner specified in, the applicable pricing supplement together with accrued interest (if any) to the date fixed for redemption (which date, in the case of Floating Rate Notes, must be an Interest Payment Date). In the event of a redemption of only some of the notes of a Series, such redemption must be of a principal amount being the "Minimum Redemption Amount" or a "Higher Redemption Amount," both as indicated in the applicable pricing supplement. In the case of a partial redemption of Certificated Notes, such notes will be selected individually by lot not more than 60 days prior to the date fixed for redemption and a list of the notes called for redemption will be notified in accordance with the provisions governing the giving of notices set forth below not less than 30 days prior to such date. In the case of a partial redemption of notes which are represented by a Global Note, the relevant notes will be selected in accordance with the rules of the relevant clearing system or systems, as the case may be. If the notes are listed on the Euro MTF or any other stock exchange and the rules of the relevant stock exchange so require, the Bank shall, once in each year in which there has been a partial redemption of the notes, cause to be published in a leading newspaper of general circulation in Luxembourg or as specified by such other stock exchange, a notice specifying the aggregate principal amount of notes outstanding and a list of the notes drawn for redemption but not surrendered.

### *Redemption at the Option of the Holder*

If so specified in the applicable pricing supplement, upon the holder of any note giving to the Bank (unless otherwise specified in the applicable pricing supplement) not more than 60 nor less than 30 days' notice in accordance with the provisions governing the giving of notices set forth below, which notice shall be irrevocable, the Bank shall, subject to compliance with all relevant laws and regulations, upon the expiry of such notice, redeem such note, subject to, and in accordance with, the terms specified in the applicable pricing supplement on the Optional Redemption Date and at the Optional Redemption Amount specified in or determined in the manner specified in the applicable pricing supplement, in whole but not in part, together with accrued interest (if any) to the date fixed for redemption.

Only the registered holder of a Global Note can exercise a right to repayment in respect thereof. In order to ensure that such entity will timely exercise a right to repayment with respect to a particular note, the beneficial owners of such notes must instruct the broker or other direct or indirect participant through which it holds an interest in such note to notify DTC (in the case of U.S. Global Notes) or Euroclear or Clearstream (in the case of International Global Notes) of its desire to exercise a right to repayment. Different firms have different deadlines for accepting instructions from their customers and, accordingly, each beneficial owner should consult the broker or other direct or indirect participant through which it holds an interest in a note in order to ascertain the deadline by which such an instruction must be given in order for timely notice to be delivered to DTC, Euroclear or Clearstream, as the case may be.

### *Redemption of Original Issue Discount Notes*

Unless otherwise specified in the applicable pricing supplement, in the event of acceleration of maturity or redemption prior to maturity of an Original Issue Discount Note, the amount payable thereon in lieu of the principal amount due at the Stated Maturity will be the amount (the "Amortized Face Amount") equal to the sum of (i) the Issue Price (as defined in "Taxation—United States Federal Income Taxation") of such note and (ii) the product of the accrual yield specified in the applicable pricing supplement (compounded annually) and the Issue Price from (and including) the issue date to (but excluding) the Optional Redemption Date (or, in the case of an early redemption for taxation reasons, the date fixed for redemption) and computed in accordance with generally accepted United States bond yield computation principles, but in no event will the Amortized Face Amount exceed the principal amount of such note due at Stated Maturity thereof.

### *Repurchase of Notes by the Bank and Subsidiaries*

The Bank and its Subsidiaries may at any time purchase or otherwise acquire any note in the open market or otherwise at any price and may resell or otherwise dispose of such note at any time; *provided* that in determining at any time whether the holders of the requisite principal amount of the notes outstanding have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, notes then owned by the Bank or any Subsidiary of the Bank shall be disregarded and deemed not outstanding.

### *Cancellation*

Any notes redeemed in full by the Bank will be immediately canceled and may not be reissued or resold.

### *Procedure for Payment upon Redemption*

If notice of redemption has been given in the manner set forth herein, the notes of a Series to be redeemed shall become due and payable on the Optional Redemption Date specified in such notice, and upon presentation and surrender of the notes at the place or places specified in such notice, the notes shall be paid and redeemed by the Bank at the places and in the manner and currency therein specified and at the redemption price therein specified together with accrued interest, if any, to the redemption date. From and after the Optional Redemption Date, if monies for the redemption of notes called for redemption shall have been made available at the corporate trust office of the Trustee for redemption on the Optional Redemption Date, the notes called for redemption shall cease to bear interest (and in the case of Original Issue Discount Notes, cease to increase the Amortized Face Amount payable in respect thereof), and the only right of the holders of such notes shall be to receive payment of the redemption price together with accrued interest, if any, to the Optional Redemption Date as aforesaid.

### **Additional Amounts**

All payments of principal, premium or interest by the Bank in respect of the notes of any Series shall be made without deduction or withholding for or on account of any present or future taxes, penalties, fines, duties, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of Argentina or by or within any political subdivision thereof or any authority therein having power to tax (“Argentine Taxes”), unless the Bank is compelled by law to deduct or withhold such Argentine Taxes.

In any such event, the Bank will pay such additional amounts (“Additional Amounts”) in respect of Argentine Taxes as may be necessary to ensure that the amounts received by holders of such notes after such withholding or deduction shall equal the respective amounts that would have been receivable in respect of such note in the absence of such withholding or deduction, except that no such Additional Amounts shall be payable:

(1) to or on behalf of a holder or beneficial owner of a note that is liable for Argentine Taxes in respect of such note by reason of having present or former connection with Argentina (or any political subdivision or taxing authority thereof or therein) other than the holding or owning of such note or the receipt of income or any payments in respect thereof;

(2) to or on behalf of a holder or beneficial owner of a note in respect of Argentine Taxes that would not have been imposed but for the failure of the holder or beneficial owner of a note to comply with any certification, identification, information, documentation or other reporting requirement (within 30 days following a written request from the Bank to the holder for compliance) if such compliance is required by applicable law, regulation, administrative practice or an applicable treaty as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Argentine Taxes;

(3) to or on behalf of a holder or beneficial owner of a note in respect of any estate, inheritance, gift, sales, transfer or similar tax, assessment or other governmental charge;

(4) to or on behalf of a holder or beneficial owner of a note in respect of Argentine Taxes payable otherwise than by withholding from payment of principal of, premium, if any, or interest on the notes;

(5) to or on behalf of a holder or beneficial owner of a note in respect of Argentine Taxes that would not have been imposed but for the failure of such holder to present a note for payment (where presentation is required) more than 30 days after the later of (x) the date on which such payment became due and (y) if the full amount payable has not been received by the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the holders by the Trustee; or

(6) any combination of items (1) to (5) above;

nor shall Additional Amounts be paid with respect to any payment of the principal of, or any premium or interest on, any notes to any holder or beneficial owner of a note who is a fiduciary or partnership or limited liability company or other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of the relevant taxing jurisdiction to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership, limited liability company or beneficial owner who would not have been entitled to such Additional Amounts had it been the holder of such notes.

All references in this Indenture to principal, premium or interest payable hereunder shall be deemed to include references to any Additional Amounts payable under this Section with respect to such principal, premium or interest. The Bank will provide the Trustee with documentation evidencing the payment of any amounts deducted or withheld in accordance with this Section promptly upon the Bank's payment thereof, and copies of such documentation will be made available by the Trustee to holders upon request.

The Bank will pay promptly when due any present or future stamp, court or documentary taxes or any excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery or registration of each note or any other document or instrument referred to in the Indenture or such note, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of Argentina except those resulting from, or required to be paid in connection with, the enforcement of such note after the occurrence and during the continuance of any Event of Default (as defined below).

## **Covenants**

Unless otherwise indicated in the applicable pricing supplement, for as long as any note is outstanding, the Bank will, and to the extent specified below will cause its Subsidiaries to, comply with the terms of the following covenants.

### *Payment of Principal and Interest*

The Bank will duly and punctually pay the principal of and interest and any Additional Amounts on the notes in accordance with the terms of the notes and the Indenture.

### *Maintenance of Corporate Existence; Properties*

The Bank will, and will cause each of its Subsidiaries to, (a) maintain in effect its corporate existence and all registrations necessary therefor, (b) take all actions to maintain all rights, privileges, titles to property or franchises necessary in the normal conduct of its business and (c) keep all its property used or useful in the conduct of its business in good working order and condition; *provided* that this covenant shall not require the Bank to maintain any such right, privilege, title to property or franchises or to preserve the corporate existence of any Subsidiary, if the board of directors of the Bank shall determine in good faith that the maintenance or preservation thereof is no longer necessary or desirable in the conduct of business of the Bank.

### *Compliance with Law*

The Bank will, and will cause each of its Subsidiaries to, comply with all applicable laws, rules, regulations, orders and resolutions of each Government Agency having jurisdiction over it or its business except where the failure to so comply would not have a material adverse effect on the business, assets, operations or financial condition of the Bank and its Subsidiaries taken as a whole.

### *Reports to Trustee*

The Bank will furnish to the Trustee:

(1) within 180 days after the end of each fiscal year of the Bank (or, if later, the date on which the Bank is required to deliver to the CNV financial statements for the relevant fiscal period), a copy of the audited consolidated balance sheet of the Bank and its Subsidiaries as of the end of such year and the related consolidated statements of income and retained earnings and of changes in financial position for such fiscal year;

(2) within 60 days after the end of the first three fiscal quarters of each fiscal year of the Bank (or, if later, the date on which the Bank is required to deliver to the CNV financial statements for the relevant fiscal period), a copy of the unaudited consolidated balance sheet of the Bank and its Subsidiaries as of the end of each such quarter and the related unaudited consolidated statements of income and retained earnings and changes in financial position for such quarter and the portion of the fiscal year through such date; all of the financial statements referred to in (1) and (2) above to be complete and correct in all material respects, to be prepared in accordance with Central Bank accounting rules applied consistently throughout the periods reflected therein (except as otherwise expressly noted therein) and to be delivered in both the English and Spanish languages;

(3) concurrently with the delivery of the financial statements referred to in clause (1) above, confirmation from Price Waterhouse & Co. (or other independent accountants of internationally recognized standing selected by the Bank) that in the course of the normal audit procedures nothing came to their attention to cause them to believe that there existed on the date of such statements any Event of Default of a financial nature, it being understood that such independent accountants shall not be obligated to expand the scope of their examination beyond that required by their normal audit procedures; and

(4) concurrently with the delivery of the financial statements referred to in clauses (1) and (2) above, a certificate of an Authorized Person of the Bank stating that such financial statements fairly present in all material respects the financial condition and results of operations of the Bank and its Subsidiaries (subject to normal year-end audit adjustments) and, to the best of such Authorized Person's knowledge, no Event of Default has occurred and is continuing except as specified in such certificate.

### *Notice of Default*

The Bank will give written notice to a responsible officer of the Trustee, promptly after the Bank becomes aware thereof, of the occurrence and continuance of any Event of Default, accompanied by an officer's certificate setting forth the details of such Event of Default and stating what action the Bank proposes to take with respect thereto.

### *Maintenance of Books and Records*

The Bank will maintain books, accounts and records in accordance with Argentine GAAP and the Rules and Regulations of the Central Bank.

### *Ranking*

The Bank will ensure that its obligations under the notes will rank *pari passu* in right of payment with all other present and future unsecured and unsubordinated indebtedness of the Bank (other than obligations preferred by statute or by operation of law).

### *Further Actions*

The Bank will use its reasonable best efforts to take any action, satisfy any condition or do any thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required, in accordance with the applicable laws and regulations to be taken, fulfilled or done in order (a) to enable it lawfully to enter into, exercise its rights and perform and comply

with its payment obligations under the notes and the Indenture, as the case may be, (b) to ensure that those obligations are legally binding and enforceable, and (c) to make the notes and the Indenture admissible in evidence in the courts of Argentina.

### *Negative Pledge*

The Bank will not, and will not permit any of its Subsidiaries to directly or indirectly, create, incur, assume or suffer to exist any Lien, except a Permitted Lien, upon its present or future assets, to secure any Indebtedness unless at the same time or prior thereto, the Bank's obligations under the notes and the Indenture, as the case may be, are secured equally and ratably therewith.

### **Mergers, Consolidations, Sales, Leases**

The Bank will not merge, consolidate or amalgamate with or into, or convey or transfer or lease all or substantially all of its properties and assets to any Person unless (a) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing, (b) any Person formed by any such merger, consolidation or amalgamation, or the Person which acquires by conveyance or transfer, or which leases, such properties and assets (the "Successor Person") expressly assumes, by a supplemental indenture, executed and delivered to the Trustee, in form reasonably satisfactory to the Trustee, the due and punctual payment of the principal of, and interest on (including Additional Amounts, if any, that may result due to withholding by any authority having the power to tax to which the Successor Person is or may be subject) all of the Notes and the Indenture, (c) the Successor Person agrees to indemnify each holder against any tax, assessment or governmental charge thereafter imposed on such holder solely as a consequence of such consolidation, merger, amalgamation, conveyance, transfer or lease with respect to the payment of principal of, or interest on, the notes and (d) the Successor Person (except in the case of leases), if any, succeeds to and becomes substituted for the Bank with the same effect as if it had been named in the notes as the Bank.

### **Certain Definitions**

For the purposes of the covenants and the events of default:

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"*Authorized Person*" means any officer of the Bank duly authorized in writing to take actions under the Indenture on behalf of the Bank.

"*Capital Stock*" means, with respect to any Person, any and all shares, interests, participations, warrants, options, rights or other equivalents of or interests in (however designated and whether voting or non-voting) corporate stock of a corporation and any and all equivalent ownership interests in a Person (other than a corporation), in each case whether now outstanding or hereafter issued, including any preferred stock.

"*Control*" of a Person by another means that the other Person (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove the majority of the members of the Board of Directors or other governing body of that Person or otherwise controls or has the power to control the affairs and policies of that Person, and the terms "Controlling" and "Controlled" have meanings correlative to the foregoing.

"*Disqualified Capital Stock*" means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof, in any case, on or prior to the 91st day after the final maturity date of the new notes issued in connection with the Bank's debt restructuring.



“*Indebtedness*” means with respect to any Person, without duplication: (a) all obligations of such Person for borrowed money; (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments; (c) all obligations of such Person under any lease that are required to be classified and accounted for as capital lease obligations under the rules of the Central Bank; (d) all obligations of such Person issued or assumed as the deferred purchase price of property or services, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business); (e) all letters of credit, banker’s acceptances or similar credit transactions, including reimbursement obligations in respect thereof; (f) guarantees and other contingent obligations of such Person in respect of Indebtedness referred to in clauses (a) through (e) above and clause (h) below; (g) all Indebtedness of any other Person of the type referred to in clauses (a) through (f) which is secured by any Lien on any property or asset of such Person; (h) all obligations due and payable under Hedging Obligations of such Person; and (i) all Disqualified Capital Stock issued by such Person.

“*Lien*” means any mortgage, charge, security interest, pledge, hypothecation or similar encumbrance.

“*Permitted Lien*” means: (a) any Lien existing on the date hereof; (b) any landlord’s, workman’s, carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s or other like Liens arising in the ordinary course of business (excluding, for the avoidance of doubt, Liens in connection with any Indebtedness (other than the Indebtedness provided for under all and each of the guaranteed loans and the restructured notes issued to the Bank’s bank lenders under the terms of the restructuring of the Bank’s debt)) that are not overdue for a period of more than 30 days, that are being contested in good faith by appropriate proceedings and that do not materially adversely affect the use of the property to which they relate; (c) any Lien on any asset securing Indebtedness incurred or assumed solely for the purpose of financing all or any part of the cost of acquiring such asset, which Lien attached to such asset concurrently with or within 90 days after the acquisition thereof; (d) any Lien required to be created in connection with: (i) special lines of credit or advances granted to the Bank by or through local or foreign governmental entities (including, without limitation, the Central Bank, Banco de Inversión y Comercio Exterior S.A. (“*BICE*”), Fondo Fiduciario de Asistencia A Entidades Financieras y de Seguros (“*FFA*”), Seguro de Depósitos S.A. (“*SEDESA*”), Fondo de Liquidez Bancaria (“*FLB*”), and banks and export credit agencies) or international multilateral lending organizations (including, without limitation, the International Bank for Reconstruction and Development and the Inter-American Development Bank), (the “*líneas especiales de crédito*”); or (ii) rediscount loans or advances granted by the Central Bank and by other Argentine government entities (including, without limitation, BICE, FFA, SEDESA and FLB) (the “*redescuentos*” or “*adelantos*”), each obtained in accordance with the applicable rules and regulations of the Central Bank or such other applicable rules and regulations governing *líneas especiales de crédito* or *redescuentos* or *adelantos*. (e) any Lien on any property existing thereon at the time of acquisition of such property and not created in connection with such acquisition; (f) any Lien securing an extension, renewal or refunding of Indebtedness secured by an Lien referred to in (a), (c) or (f) above, *provided* that such new Lien is limited to the property which was subject to the prior Lien immediately before such extension, renewal or refunding and *provided* that the principal amount of Indebtedness secured by the prior Lien immediately before such extension, renewal or refunding is not increased; (g) (i) any inchoate Lien for taxes, assessments or governmental charges or levies not yet due or (ii) any Lien in the form of a tax or other statutory Lien or any other Lien arising by operation of law, *provided* that any such Lien shall be discharged within 30 days after the date it is created or arises (unless contested in good faith, in which case it shall be discharged within 30 days after final adjudication); (h) any Lien securing the guaranteed notes and the guaranteed loans issued in connection with the Bank’s debt restructuring; or (i) any other Lien on the Bank’s assets or those of any Subsidiary, *provided* that on the date of the creation or assumption of such Lien, the Indebtedness secured by such Lien, together with all other indebtedness of the Bank or any Subsidiary secured by any Lien under this clause shall have an aggregate amount outstanding of no greater than 10% of the total consolidated assets of the Bank and its Subsidiaries as set forth in the Bank’s most recent consolidated financial statements.

“*Person*” means any individual, corporation (including a business trust), limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or other entity, or government or any agency or political subdivision thereof.

“*Significant Subsidiary*” means, at any relevant time, any Subsidiary of the Bank which would be a “Significant subsidiary” of the Bank within the meaning of Rule 1-02 under Regulation S-X promulgated by the United States Securities and Exchange Commission.

“*Subsidiary*” means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of the Capital Stock thereof is at the time owned or Controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person or a combination thereof; *provided* that the term “Subsidiary” shall not include any trust established by or at the direction of the Bank, other than a trust which is Controlled by the Bank, other than by virtue solely of general provisions relating to voting rights of holders of any relevant securities in their capacity as such or otherwise by virtue of any holding of a specific number or amount of any such securities.

## Events of Default

In case one or more of the following events (each an “Event of Default”) shall have occurred and be continuing with respect to the notes of any Series:

(i) the Bank shall fail to pay any principal or interest (or Additional Amounts, if any) on the notes of such Series on the date when it becomes due and payable in accordance with the terms thereof, and such failure shall continue for a period of seven days (in the case of principal) or fourteen days (in the case of interest or Additional Amounts, if any);

(ii) the Bank shall fail duly to perform or observe any other covenant or obligation applicable to such Series, or the Indenture and such failure shall continue for a period of 30 days after written notice to that effect is received by the Bank from the Trustee or by the Bank and the Trustee from the Holders of at least 25% in aggregate principal amount of the Outstanding notes of such Series;

(iii) the Bank or any Subsidiary shall fail to pay when due outstanding interest on or principal of any Indebtedness of the Bank or such Subsidiary (other than Indebtedness outstanding on the date of this offering memorandum) in an aggregate amount due and payable of at least US\$20,000,000 (or the then equivalent thereof in another currency, each such equivalent to be determined by the Bank at the time of the relevant default and not to be affected by subsequent changes in exchange rates) and such failure shall continue after the grace period, if any, applicable thereto; or any other Event of Default shall occur under any agreement or instrument relating to any such Indebtedness in an aggregate principal amount of at least US\$20,000,000 (or the then equivalent thereof in another currency determined by the Bank as above) which results in the acceleration of the maturity thereof;

(iv) (a) a court having jurisdiction enters a decree or order for (x) relief in respect of the Bank or any Significant Subsidiary in an involuntary case under Argentine Law No. 21,526, as amended, Argentine Law No. 24,522 or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect or (y) appointment of an administrator, receiver, trustee or intervenor for the Bank or any Significant Subsidiary for all or substantially all of the property of the Bank or any Significant Subsidiary and, in each case, such decree or order shall remain unstayed and in effect for a period of sixty consecutive days or (b) the Central Bank (x) initiates a proceeding under Article 34 of Argentine Law No. 21,526, as amended, requesting the Bank to submit a plan under such Article or (y) orders a temporary, total or partial suspension of the activities of the Bank pursuant to Article 49 of the charter of the Central Bank;

(v) the Bank or any Significant Subsidiary (a) commences a voluntary case under Argentine Law No. 21,526, as amended, Argentine Law No. 24,522 or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (b) consents to the appointment of or taking possession by an administrator, receiver, trustee or intervenor for the Bank or any Significant Subsidiary for all or substantially all of the property of the Bank or any Significant Subsidiary or (c) effects any general assignment for the benefit of creditors;

(vi) a law is passed, a final order is made or an effective resolution passed for the winding-up, liquidation or dissolution of the Bank, or the Bank shall apply or petition for a winding-up or dissolution order in respect of itself or shall cease to carry on all or substantially all of its business or operations (in each case except (a) for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation, on terms approved by a resolution of an Extraordinary Meeting of the holders of the notes of such Series or (b) pursuant to a transaction, reconstruction, amalgamation, reorganization, merger, consolidation or other transaction not prohibited by Section 8.1 of the Indenture and in each case

any winding-up, dissolution or liquidation proceedings resulting from the taking of such corporate action remains undismissed for 30 days;

(vii) it becomes unlawful for the Bank to perform or comply with its payment obligations under the notes of such Series; or

(viii) the Indenture for any reason ceases to be in full force and effect in accordance with its terms, or the Bank shall deny that it has any further liability or obligation thereunder or in respect thereof,

then the Trustee shall, upon the request of the holders of not less than 25.0% in principal amount of the notes of such Series, by written notice to the Bank declare all the notes of such Series then outstanding to be immediately due and payable; *provided* that in the case of any of the Events of Default described in paragraphs (iv) and (v) above with respect to the Bank, all notes shall, without any notice to the Bank or any other act by the Trustee or any holder of any notes, become immediately due and payable; *provided further*, that none of the events or circumstances described above shall constitute an Event of Default, if they arise out of or are related to the execution of any *Acuerdo Preventivo Extrajudicial* (APE) agreement specified in a pricing supplement to this offering memorandum or to any proceedings contemplated thereby. In the event an Event of Default set forth in clause (iii) above has occurred and is continuing with respect to the notes of any Series, such Event of Default shall be automatically rescinded and annulled once the event of default or payment default triggering such Event of Default pursuant to clause (iii) shall be remedied or cured by the Bank and/or the relevant Subsidiary or waived by the holders of the relevant Indebtedness. No such rescission and annulment shall affect any subsequent Event of Default or impair any right consequent thereto. Upon any such declaration of acceleration, the principal of the notes so accelerated and the interest accrued thereon and all other amounts payable with respect to such notes shall become and be immediately due and payable. If the Event of Default or Events of Default giving rise to any such declaration of acceleration shall be cured following such declaration, such declaration may be rescinded by the holders of such notes in the manner set forth in the Indenture.

### **Meetings, Modification and Waiver**

The Bank and the Trustee may, without the vote or consent of any holder of notes of a Series, modify or amend the Indenture or the notes of a Series for the purpose of:

- adding to the covenants of the Bank such further covenants, restrictions, conditions or provisions as are for the benefit of the holders of such notes;
- surrendering any right or power conferred upon the Bank;
- securing the notes of any Series pursuant to the requirements thereof or otherwise evidencing the succession of another person to the Bank and the assumption by any such successor of the covenants and obligations of the Bank in the notes and in the Indenture pursuant to any merger, consolidation or sale of assets;
- establishing the form or terms of any new Series of notes as permitted under the Indenture;
- complying with any requirement of the CNV in order to effect and maintain the qualification of the Indenture;
- making any modification which is of a minor or technical nature or correcting or supplementing any ambiguous, inconsistent or defective provision contained in the Indenture or in such notes, provided that any such modification, correction or supplement shall not adversely affect the interests of the holders of the notes of such Series; and
- making any other modification, or granting any waiver or authorization of any breach or proposed breach, of any of the terms and conditions of such notes or any other provisions of the Indenture in any manner which does not adversely affect the interest of the holders of the notes of such Series in any material respect.

Modifications to and amendments of the Indenture and the notes of a Series may be made, and future compliance or past default by the Bank may be waived, by the Bank and the Trustee by the adoption of a resolution

at a meeting of holders of a Series of notes as set forth below, but no such modification or amendment and no such waiver may, without the unanimous consent of the holders of all notes of a Series adversely affected thereby, (i) extend the due date for the payment of principal of, premium, if any, or any interest on any such note, (ii) reduce the principal amount of, the portion of such principal amount which is payable upon acceleration of the maturity of, the rate of interest on or the premium payable upon redemption of any such note, (iii) reduce the obligation of the Bank to pay Additional Amounts on any such note, (iv) shorten the period during which the Bank is not permitted to redeem any such note, or permit the Bank to redeem any such note if, prior to such action, the Bank is not permitted to do so, (v) amend the circumstances under which the notes of such Series may be redeemed, (vi) change the Specified Currency in which or the required places at which any such note or the premium or interest thereon is payable, (vii) reduce the percentage of the aggregate principal amount of such notes necessary to modify, amend or supplement the Indenture or such notes, or for waiver of compliance with certain provisions thereof or for waiver of certain defaults, (viii) reduce the percentage of aggregate principal amount of outstanding notes required for the adoption of a resolution or the quorum required at any meeting of holders of such notes at which a resolution is adopted or (ix) modify any provisions of the Indenture relating to Meetings, modifications or waivers as described above, except to increase any such percentage or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holder of each security adversely affected thereby.

The Indenture contains provisions for convening meetings of holders of notes to consider matters affecting their interests. A meeting of the holders of notes of a Series may be called by the Trustee or the Bank upon the request of the holders of at least 5.0% in principal amount of the outstanding notes of such Series, or by the Bank at its discretion, pursuant to the Negotiable Obligations Law.

Any such meeting shall be held simultaneously in Buenos Aires and New York City by means of telecommunications which permit the participants to hear and speak to each other. If a meeting is held pursuant to the written request of holders of notes, such meeting shall be convened within 40 days from the date such written request is received by the Bank. Notice of any meeting of holders of notes (which shall include the date, place and time of the meeting, the agenda therefor and the requirements for attendance) shall be given not less than 20 nor more than 180 days prior to the date fixed for the meeting as set forth under “—Notices” below and shall be published not less than 10 days nor more than 30 days prior to the date fixed for the meeting in the *Boletín Oficial* (Official Gazette of Argentina). Notice in Argentina shall be published for five different days in the case of initial meetings and for three different days in the case of any meeting adjourned for lack of a quorum.

Any holder of a note may attend a meeting in person or by proxy.

Meetings of holders may be ordinary or extraordinary. Amendments or supplements to the Indenture or to the notes of a Series or waivers of any provision thereof approved at a meeting may only be approved at an extraordinary meeting. The quorum at any meeting called to adopt a resolution will be persons holding or representing 60.0% (in the case of an extraordinary meeting) or a majority (in the case of an ordinary meeting) in aggregate principal amount of the outstanding notes of a Series and at any reconvened adjourned meetings will be persons holding or representing 40.0% in aggregate principal amount of the outstanding notes of a Series (in the case of an extraordinary meeting) or the person(s) present at such reconvened adjourned meeting (in the case of an ordinary meeting). At a meeting or a reconvened adjourned meeting duly convened and at which a quorum is present, any resolution to modify or amend, or to waive compliance with, any provision of the notes of any Series (other than the provisions referred to in the fourth preceding paragraph) shall be validly passed and decided if approved by the persons entitled to vote a majority in aggregate principal amount of the notes of such Series then outstanding represented and voting at the meeting. Any instrument given by or on behalf of any holder of a note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such note. Any modifications, amendments or waivers to the Indenture or to the notes of a Series shall be conclusive and binding upon all holders of notes of such Series whether or not they have given such consent or were present at any meeting, and on all notes of such Series.

The Trustee will designate the record date for determining the holders of notes of any Series entitled to vote at any meeting and will provide notice to holders of notes of such Series in the manner set forth in the Indenture. The holder of a note may, at any meeting of holders of a Series of notes at which such holder is entitled to vote, cast one vote for each US dollar in principal amount of the notes held by such holder in which such notes are denominated. Notwithstanding the foregoing, at any meeting of holders of more than one Series of notes, a holder of a note which does not specify regular payments of interest, including without limitation, Original Issue Discount Notes, shall be entitled to one vote at any such meeting for each US dollar of the redemption value of such note calculated as of the date of such meeting. Where notes are denominated in one or more Specified Currencies other than US dollars, the US dollar equivalent of such notes shall be calculated at the Market Exchange Rates on the date

of such meeting or, in the case of written consents or notices, on such dates as the Bank shall designate for such purpose.

For purposes of the above, any note authenticated and delivered pursuant to the Indenture will, as of any date of determination, be deemed to be “outstanding,” except:

(i) Notes theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(ii) Notes that have been called for redemption in accordance with their terms or which have become due and payable at maturity or otherwise and with respect to which monies sufficient to pay the principal thereof and any premium, interest, Additional Amounts or other amount thereon shall have been deposited with the Trustee; or

(iii) Notes in lieu of or in substitution for which other notes shall have been authenticated and delivered pursuant to the Indenture;

*provided however*, that in determining whether the holders of the requisite principal amount of outstanding notes of a Series are present at a meeting of holders of notes of such Series for quorum purposes or have consented to or voted in favor of any notice, consent, waiver, amendment, modification or supplement under the Indenture, notes of such Series owned directly or indirectly by the Bank or any Affiliate of the Bank, including any Subsidiary, shall be disregarded and deemed not to be outstanding.

Promptly after the execution by the Bank and the Trustee of any supplement or amendment to the Indenture, the Bank shall give notice thereof to the holders of the notes and, if applicable, to the CNV, setting forth in general terms the substance of such supplement or amendment. If the Bank shall fail to give such notice to the holders of the notes within 15 days after the execution of such supplement or amendment, the Trustee shall give notice to the holders at the expense of the Bank. Any failure of the Bank or the Trustee to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplement or amendment.

### **Enforcement by Holders of Notes**

Except as described in the next paragraph, no holder of a note of a Series shall have any right by virtue of or by availing itself of any provision of the Indenture or such note to institute any suit, action or proceeding in equity or at law upon or under or with respect to the Indenture or the notes of such Series or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless (i) such holder previously shall have given to the Trustee written notice of a default with respect to the notes, (ii) holders of not less than 25.0% in aggregate principal amount of the notes of such Series shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee under the Indenture and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby and (iii) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such action, suit or proceeding and no direction inconsistent with such written request shall have been given to the Trustee pursuant to the Indenture.

Notwithstanding any other provision in the Indenture and any provision of any note, the right of any holder of notes to receive payment of the principal of and interest on such note (including Additional Amounts) on or after the respective due dates expressed in such note, or to institute suit, including any *acción ejecutiva individual* pursuant to Article 29 of the Argentine Negotiable Obligations Law, for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such holder.

### **Defeasance**

Unless otherwise set forth in the applicable pricing supplement, subject to the satisfaction of certain conditions, the Bank may elect either (i) to defease and be discharged from any and all obligations with respect to the notes (which must be denominated in US dollars and have a fixed rate of interest), including any obligation to redeem such notes and the obligations described above under “Covenants” (except for certain obligations specified in the Indenture, including, but not limited to, the rights of holders of outstanding notes to receive payments in respect of the principal of, premium, if any, and interest on such notes where such payments are due, to pay Additional Amounts, to register the transfer or exchange of such notes, to replace temporary or mutilated, destroyed, lost or stolen notes, to submit to jurisdiction as set forth in the Indenture, or to maintain a trustee and paying agent with respect to such notes (which must be denominated in US dollars and bear a fixed rate of interest) as are described under “Covenants—Negative Pledge” and “Covenants—Further Actions” and to have the occurrence of

any event specified in clause (2) under “—Events of Default” not constitute an Event of Default (but only insofar as such clause relates to obligations described under “Covenants—Negative Pledge” and “Covenants—Further Actions” from which the Bank has been released as described in this clause (ii)) (“partial defeasance”).

The Bank may exercise its election for total defeasance or partial defeasance with respect to notes only upon satisfaction of the conditions precedent set forth in the Indenture which include, among others, (a) the deposit in trust with the Trustee, in trust for such purpose, of money and/or U.S. government obligations in an amount, specifically pledged as security for, and dedicated solely to, the benefit of the holders of such notes, sufficient to pay the principal of and interest on the notes to maturity or redemption, as the case may be, (b) the delivery to the Trustee of a certificate from a nationally recognized firm of U.S. independent certified public accountants expressing its opinion that the payments of principal and interest when due and without reinvestment of the deposited U.S. government obligations plus any deposited money without investment will provide cash at such times and in such amounts as will be sufficient to pay principal and interest when due on all the notes to maturity or redemption, as the case may be, (c) the delivery to the Trustee of opinions of independent Argentine and U.S. counsel to the effect that the holders of such notes will not recognize income, gain or loss for Argentine or U.S. federal income tax purposes as a result of such total or partial defeasance and will be subject to Argentine or U.S. federal income tax on the same amount, in the same manner and at the same times as would have been the case if such total defeasance or partial defeasance had not occurred, (d) the absence of any Event of Default, or event which with notice or lapse of time or both would become an Event of Default, on the day of deposit or at any time on or prior to the 123rd day after the date of such deposit or (e) the absence of any breach or violation of, or a default under, any agreement to which the Bank is a party as a result of such total or partial defeasance.

### **Replacement of Notes**

Notes that become mutilated, destroyed, stolen or lost will be replaced upon delivery thereof to the Trustee, or delivery to the Bank and the Trustee of evidence of the loss, theft or destruction thereof satisfactory to the Bank and the Trustee. In the case of a lost, stolen or destroyed note, an indemnity satisfactory to the Trustee and the Bank will be required at the expense of the holder of such note before a replacement note will be issued. Upon the issuance of any new note, the Bank may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and the expenses of the Trustee, its counsel and its agents) connected therewith.

### **Repayment of Monies; Prescription**

Any monies deposited with or paid to the Trustee or any Paying Agent for the payment of the principal of or interest or any other amounts payable on or in respect of any note (including Additional Amounts) and not applied but remaining unclaimed for three years after the date upon which such principal or interest or other amounts have become due and payable will, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property law, be repaid to the Bank by the Trustee or such Paying Agent, and the holder of such note shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property laws, thereafter look only to the Bank for any payment that such holder may be entitled to collect, and all liability of the Trustee or any Paying Agent with respect to such monies will thereupon cease.

All claims against the Bank for payment of principal of or interest or any other amounts payable on or in respect of any note (including Additional Amounts) shall be prescribed unless made within three years from the later of (i) the date on which such payment first became due and (ii) if the full amount payable has not been received by the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice shall have been given to the holders of the notes by the Trustee that the full amount has been received.

### **Notices**

Notices to holders of notes will be deemed to be validly given (i) if sent by first class mail to them (or, in the case of joint holders, to the first-named in the Register) at their respective addresses as recorded in the Register, and will be deemed to have been validly given on the fourth Business Day after the date of such mailing, (ii) for as long as such notes are listed on the Buenos Aires Stock Exchange, upon publication in Buenos Aires in the Bulletin of the Buenos Aires Stock Exchange and in a widely circulated newspaper in Argentina, and (iii) for as long as such notes are listed on the Euro MTF, upon publication in a leading daily newspaper of general circulation in Luxembourg and upon publication in a widely circulated newspaper in London. It is expected that notices in London

will be published in the *Financial Times*, notices in Luxembourg will be published in the *d'Wort*, and notices in Buenos Aires will be published in *La Nación*. If publication is impossible or impracticable in London, then publication may, in lieu of publication in London, be made in any English language newspaper having general circulation in Europe. Any such notice will be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the last date on which publication is required and made as so required. In the case of Global Notes, notices shall be sent to DTC, Euroclear or Clearstream, as the case may be, or their nominees (or any successors), as the holder thereof, and such clearing agency or agencies will communicate such notices to their participants in accordance with their standard procedures.

In addition, the Bank shall be required to cause all such other publications of such notices as may be required from time to time by applicable Argentine law. Neither the failure to give notice nor any defect in any notice given to any particular holder of a note shall affect the sufficiency of any notice with respect to any other notes.

### **Judgment Currency Indemnity**

If a judgment or order given or made by any court for the payment of any amount in respect of any note is expressed in a currency (the “judgment currency”) other than the currency (the “denomination currency”) in which such notes are denominated or in which such amount is payable, the Bank will indemnify the relevant holder against any deficiency arising or resulting from any variation in rates of exchange between the date as of which the amount in the denomination currency is notionally converted into the amount in the judgment currency for the purposes of such judgment or order and the date of actual payment thereof. This indemnity will constitute a separate and independent obligation from the other obligations contained in the terms and conditions of the notes, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due in respect of the relevant note or under any such judgment or order.

### **Governing Law, Judgments, Jurisdiction, Service of Process, Waiver of Immunities**

Unless otherwise stated in the relevant pricing supplement, the Indenture and the notes are governed by, and will be construed in accordance with, the law of the State of New York; *provided, however*, that all matters relating to the due authorization, execution, issuance and delivery of the notes by the Bank, and matters relating to the legal requirements necessary in order for the notes to qualify as “negotiable obligations” under Argentine law, shall be governed by the Argentine Negotiable Obligations Law No. 23,576, as amended, together with Argentine Business Companies Law No. 19,550, as amended and other applicable Argentine laws and regulations.

Under the Judiciary Law of the State of New York, a judgment or decree in an action based upon an obligation denominated in a currency other than US dollars will be rendered in the foreign currency of the underlying obligation and converted into US dollars at a rate of exchange prevailing on the date of the entry of the judgment or decree.

Unless otherwise stated in the relevant pricing supplement, the Bank shall irrevocably submit to the jurisdiction of any state or federal court sitting in the Borough of Manhattan, City and State of New York, any Argentine court sitting in Buenos Aires and any competent court in the place of its corporate domicile for purposes of any action or proceeding arising out of or related to the Indenture or the notes. The Bank shall irrevocably waive, to the fullest extent permitted by law, any objection which it may have to the laying of the venue of any such action or proceeding brought in such a court and any claim that any such action or proceeding brought in such a court has been brought in an inconvenient forum. The Bank has also agreed that final judgment in any such action or proceeding brought in such court shall be conclusive and binding upon the Bank and may be enforced in any court to the jurisdiction of which the Bank is subject by a suit upon such judgment; *provided, however*, that service of process is effected upon the Bank in the manner specified in the following paragraph or as otherwise permitted by law.

Unless otherwise stated in the relevant pricing supplement, as long as any note remains outstanding, the Bank will at all times have an authorized agent in the Borough of Manhattan in the City and State of New York upon whom process may be served in any legal action or proceeding arising out of or relating to the notes or the Indenture. Service of process upon such agent and written notice of such service mailed or delivered to the party being joined in such action or proceeding shall, to the extent permitted by law, be deemed in every respect effective service of process upon such party in any such legal action or proceeding. The Bank has appointed CT Corporation

System, 1633 Broadway, New York, New York 10019 as its agent for service of process in any proceedings in the Borough of Manhattan, City and State of New York.

In addition, pursuant to the Indenture, the Bank has acknowledged that the activities contemplated by the Indenture are commercial in nature and has irrevocably waived to the extent permitted by applicable law any right of immunity or claim thereto that may now or hereafter exist.

### **Trustee**

Unless otherwise stated in the relevant pricing supplement, the notes shall be issued in accordance with the Indenture. HSBC Bank USA, National Association (formerly HSBC Bank USA), has been appointed as the Trustee under the Indenture. The Indenture contains provisions relating to the duties and responsibilities of the Trustee and its obligations to the holders of the notes.

The Trustee may resign at any time and the holders of a majority in aggregate principal amount of the notes may remove the Trustee at any time. The Bank may remove the Trustee if the Trustee becomes ineligible to serve as Trustee under the terms of the Indenture, becomes incapable of acting as Trustee, or is adjudged insolvent or bankrupt. If the Trustee resigns or is removed, a successor Trustee will be appointed in accordance with the terms of the Indenture. The Bank will give notice of any resignation, termination or appointment of the Trustee to the holders of the notes and to the CNV.

In the Indenture, the Bank covenants to indemnify and defend the Trustee for, and to hold it harmless against, any loss, liability or expense (including the reasonable costs and expenses of its counsel) arising out of or in connection with the acceptance or administration of the Indenture or the trusts thereunder and the performance of its duties thereunder, except to the extent such loss, liability or expense is due to its own gross negligence or bad faith.

The Indenture provides that the Trustee or any affiliate or agent of the Trustee may become the owner or pledgee of securities with the same rights it would have if it were not the Trustee or any agent of the Trustee and may otherwise deal with the Bank and receive, collect, hold and retain collections from the Bank with the same rights it would have if it were not the Trustee or an affiliate or agent. The Trustee and its affiliates and agents are entitled to enter into business transactions with the Bank or any of its affiliates without accounting for any profit resulting from such transactions.

### **Paying Agents; Transfer Agents; Registrars**

Unless otherwise stated in the relevant pricing supplement, the registrars, paying agents and transfer agents appointed by the Bank are listed at the back of this offering memorandum. The Bank may at any time appoint additional or other registrars, paying agents and transfer agents and terminate the appointment thereof; *provided, however*, that (i) while notes of any Series are outstanding, the Bank will maintain a registrar, a paying agent and a transfer agent in New York City; (ii) as long as the notes are listed on the Euro MTF and the rules of the Luxembourg Stock Exchange so require, at least one paying agent and transfer agent will be located in Luxembourg; and (iii) as long as it is required by Argentine law or by the CNV, the Bank will maintain a co-registrar, a paying agent and a transfer agent in Buenos Aires. In the event required by the Indenture, notice of any resignation, termination or appointment of any registrar, paying agent or transfer agent, and of any change in the office through which any registrar, paying agent or transfer agent will act, will be promptly given to the holders of the notes in the manner described under “—Notices” above and to the CNV.

The Trustee, the Paying Agents, the Transfer Agents and the Registrars make no representation regarding this offering memorandum, any pricing supplement or the matters contained herein or therein.



## SUBSCRIPTION AND SALE

Subject to the terms and conditions set out in a Program Agreement to be entered into (the “Program Agreement”), among the Bank and the several dealers, the notes may be offered from time to time by the Bank through the dealers. The Bank may pay the relevant Dealer a commission for sales made through it as the Dealer.

The Bank may also sell notes to the dealers as principal for their own accounts at a discount or commission to be agreed upon. In addition, the notes may be sold from time to time through a syndicate of financial institutions, for which a Dealer shall act as lead manager (a “Lead Manager”). Such notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer.

The Bank has reserved the right to sell notes directly on its own behalf, in which case no commissions will be payable with respect to any such sale.

The Bank has agreed to indemnify the dealers against certain liabilities and reimburse certain expenses.

Unless otherwise provided in the applicable pricing supplement, the dealers and their affiliates participating in an offering of notes under the program may engage in transactions that stabilize, maintain or otherwise affect the market price of the notes. Such transactions may include stabilization transactions effected in accordance with Rule 104 of Regulation M under the Securities Act, pursuant to which such persons may bid for or purchase notes for the purpose of stabilizing their market price. The dealers also may create a short position for their respective accounts by selling more notes in connection with such an offering than they are committed to purchase from the Bank, and in such case may purchase notes in the open market following completion of an offering of notes to cover all or a portion of such short position. Any of the transactions described in this paragraph may result in the maintenance of the price of the notes at a level above that which might otherwise prevail in the open market. None of the transactions described in this paragraph is required, and, if any is undertaken, it may be discontinued at any time.

### **United States**

#### ***Offerings Outside the United States***

The notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons unless the notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Dealer has agreed or will agree that, except as permitted by the Program Agreement, it will not offer, sell or deliver notes of any Series within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the notes of a Series as certified to us, and that it will have sent to each Dealer to which it sells notes prior to such 40th day a confirmation or other notice setting forth the restrictions on offers and sales of such notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the completion of the distribution of the notes of a Series, an offer or sale of notes of such Series within the United States by a dealer that is not participating in the offering of such Series may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than under an applicable exemption from registration under the Securities Act.

#### ***Offerings Within the United States***

The notes offered and sold within the United States are not being registered under the Securities Act and are being offered and sold in reliance upon the exemption from registration provided by Section 4(2) thereof, which exempts transactions by an issuer not involving any public offering.

Dealers may arrange for the resale of notes to QIBs pursuant to Rule 144A, and each such purchaser of notes is hereby notified that dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. To the extent that the Bank is not subject to or does not comply with the

reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g-3-2(b) thereunder, the Bank has agreed to furnish to holders of the notes and to prospective purchasers designated by such holders, upon request thereby, such information as may be required by Rule 144A.

Any purchaser of notes must have sufficient knowledge and experience in business matters to be capable of evaluating the merits and risks of investing in and holding notes and be liable to bear the economic risk of the investment for an indefinite period of time because the notes have not been registered under the Securities Act. There is no undertaking to register the notes, and they cannot be sold unless they are subsequently registered or an exemption from such registration requirement is available. There can be no assurance that the notes will be sold, or that there will be a secondary market for the notes.

Each series of notes will also be subject to such additional United States selling restrictions as the Bank and the relevant Dealer or dealers may agree to and as indicated in the applicable pricing supplement. Each of the dealers has agreed or will agree that it will offer, sell or deliver such notes only in compliance with such additional selling restrictions.

### **Republic of Argentina**

The notes issued under the program will constitute *obligaciones negociables* under Argentine Law No. 23,962 (the “Negotiable Obligations Law”), and are entitled to the benefits set forth therein and subject to the procedural requirements established in Decree 677/01. The notes may not be offered directly to the public in Argentina except by the Bank or through individuals or entities authorized under the laws and regulations of Argentina to offer or sell the notes directly to the public in Argentina.

Notes to be issued under the program will be offered to the public in Argentina in accordance with General Resolution 368/2001 of the CNV, as amended. This offering memorandum will be available to the public in Argentina. The placement of notes in Argentina will take place in accordance with the provisions set forth in Section 16 of Law No. 17,811 and CNV regulations, through, among other things: (i) publishing of a summary of this offering memorandum and the pricing supplement related to a particular series of notes in the Buenos Aires Stock Exchange Gazette and in a newspaper of general circulation in Argentina; (ii) distribution of this offering memorandum and the relevant pricing supplement to the public in Argentina; (iii) road shows in Argentina for prospective investors; and (iv) conference calls with prospective investors in Argentina. Each pricing supplement will contain specific details of the public offering efforts to be undertaken, in accordance with Argentine law, as mentioned above, in connection with each issuance of notes.

### **United Kingdom**

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the program will be required to consent and agree that:

(1) in relation to notes which have a maturity of one year or more, (i) it has not offered or sold and prior to the expiry of a period of six months from the Issue Date of such notes, any such notes, and (ii) will not offer or sell to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);

(2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, or the “FSMA”, received by it in connection with the issue or sale of such notes in circumstances in which Section 21(1) of the FSMA does not, or would not, apply to the Bank;

(3) in relation to any notes which must be redeemed before the first anniversary of the date of their issue, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business, and (b) it has not offered or sold and will not offer or sell any such notes other than to persons:

- (i) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
- (ii) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses;

where the issue of the notes would otherwise constitute a contravention of Section 19 of the FSMA by the Bank; and

(4) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any notes in, from or otherwise involving the United Kingdom.

### **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### **Other Jurisdictions**

No action has been or will be taken in any jurisdiction by the Bank that would permit a public offering of notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this offering memorandum comes are required by the Bank to comply with all applicable laws at their own expense.

## TRANSFER RESTRICTIONS

Each prospective purchaser of notes offered in reliance on Rule 144A or Section 4(2) of the Securities Act, by accepting delivery of this offering memorandum, will be deemed to have represented and agreed as follows:

- (1) Such offeree acknowledges that this offering memorandum is personal to such offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the notes other than pursuant to Rule 144A or Section 4(2) of the Securities Act or in offshore transactions in accordance with Regulation S. Distribution of this offering memorandum, or disclosure of any of its contents to any person other than such offeree and those persons, if any, retained to advise such offeree with respect thereto, is unauthorized, and any disclosure of any of its contents, without the prior written consent of the Bank, is prohibited.
- (2) Such offeree agrees to make no photocopies of this offering memorandum or any documents referred to herein.

Each purchaser of notes offered and sold in reliance on Rule 144A will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (1) The purchaser (A) is a qualified institutional buyer, (B) is aware that the sale to it is being made in reliance on Rule 144A and (C) is acquiring such notes for its own account or for the account of a qualified institutional buyer.
- (2) The purchaser is neither a citizen nor a resident of a member state of the European Economic Area.
- (3) The purchaser at the time of acquiring such notes is either:
  - (a) a legal entity authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities, or
  - (b) a legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last consolidated or non-consolidated published annual accounts.
- (4) The notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, the notes have not been and will not be registered under the Securities Act, and if in the future the purchaser decides to offer, resell, pledge or otherwise transfer such notes, such notes may be offered, sold, pledged, or otherwise transferred only (A) to a person who the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.
- (5) The purchaser understands that notes of a Series offered in reliance on Rule 144A will be represented by a Restricted Global Note.

The Restricted Global Notes will bear a legend to the following effect unless the Bank determines otherwise in compliance with applicable law:

“This note has not been registered under the U.S. Securities Act of 1933, as amended, and prior to the date which is two years after the original issue date hereof may be transferred only pursuant to the exemption from the registration requirements of such Act provided by either Rule 144A or Regulation S thereunder.”

Certificated Notes sold pursuant to Rule 144A or in a private placement pursuant to Section 4(2) of the Securities Act to an institutional accredited investor, or issued in exchange for an interest in a Restricted Global Note, will bear the following legend and be subject to the transfer restrictions set forth therein:

“This note has not been registered under the U.S. Securities Act of 1933, as amended, and may not be offered, sold or otherwise transferred without registration under such Act unless an exemption from registration is available. The purchaser of this note, by its acceptance hereof, whether upon original issuance or subsequent transfer, acknowledges the restrictions on the transfer of this note set forth below and agrees that it shall transfer such notes only as provided in the Indenture referred to herein.

This note may be transferred only in principal amounts of US\$250,000 and multiples of US\$50,000 in excess of US\$250,000 (or the approximate equivalent of such amounts in the relevant foreign currency or composite currency), except that a transferor which is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) may transfer this note under clause (A) below in principal amounts of US\$100,000 and multiples of US\$50,000 in excess thereof (or the approximate equivalent of such amounts in the relevant foreign currency or composite currency). By its acceptance of this note, the purchaser agrees that prior to the date which is two years after the original issue date hereof, this note may be transferred only (A) pursuant to the exemption from the registration requirements of the Securities Act provided by either Rule 144A or Regulation S thereunder, (B) to a Dealer (as defined in the Indenture) or through a Dealer to institutional accredited investors (within the meaning of Rule 501 of the Securities Act) which are approved by such Dealer, (C) directly to an institutional accredited investor which is approved by a Dealer or the Bank in a transaction approved by such Dealer or the Bank, (D) through a broker or other intermediary other than a Dealer to an institutional accredited investor approved by the Bank or (E) pursuant to an exemption from such registration requirements as confirmed in an opinion of counsel satisfactory to the Bank. If requested by the Bank or by a Dealer, the purchaser agrees to provide the information necessary to determine whether the transfer of this note is permissible under the Securities Act. This note and related documentation may be amended or supplemented from time to time to modify the restrictions on and procedures for resales and other transfers of this note to reflect any change in applicable law or regulation (or the interpretation thereof) or in practices related to the resale or transfer of restricted securities generally. By the acceptance of this note, the holder hereof shall be deemed to have agreed to any such amendment or supplement.

The foregoing legends may be removed from this note on satisfaction of the conditions specified in the Indenture.”

The Indenture provides that such legends will not be removed unless the Transfer Agent is advised that the relevant note is being transferred pursuant to Regulation S or unless there is delivered to the Bank and the Transfer Agent evidence reasonably satisfactory to the Bank, which may include an opinion of U.S. counsel, to the effect that neither such legends nor the restrictions on transfer set forth therein are required to ensure that transfers of such note comply with the Securities Act. As a general matter, the legends may be removed from any note two years after the original issue date thereof, provided that during such two -year period such note has not been acquired by the Bank or any affiliate thereof.

With respect to the registration of transfer of any legended Certificated note to a transferee desiring or required to hold a Certificated Note or notes:

- (1) The Registrar shall register the transfer of any such note if the requested transfer is (a) to the Bank, an affiliate (as defined in Rule 144(a)(1) under the Securities Act) of the Bank or any Dealer or (b) being made by a transferor who has provided the Bank and the Transfer Agent with a Rule 144A Transfer Certificate in the form provided in the Indenture;
- (2) The Registrar shall also register the transfer of any such note if the transferor has provided the Bank and the Transfer Agent with a Regulation S Transfer Certificate in the form provided in the Indenture; and

- (3) The Registrar shall register the transfer of any such note if the requested transfer is in the form of another legended Certificated Note, if the transfer is in a minimum denomination of US\$250,000 and the transferee has provided the Bank and the Transfer Agent with (a) an investor's representation letter in the form provided in the Indenture, (b) if requested by the Bank, an opinion of counsel in form satisfactory to the Bank and (c) such other evidence acceptable to the Bank that such transfer is in compliance with the Securities Act and other applicable laws.

If a holder of a legended Certificated Note requests that such note be transferred to a transferee that will take delivery in the form of a beneficial interest in a Global Note, the Transfer Agent shall accept such transfer only if (i) the requirements of clause (1)(b) above have been met (in the case of a transfer to a transferee that will take delivery in the form of a beneficial interest in a Restricted Global Note) or (ii) the requirements of clause (2) above have been met (in the case of a transfer to a transferee that will take delivery in the form of a beneficial interest in a Regulation S Global Note). Upon acceptance for transfer of a Certificated Note pursuant to this paragraph, the Transfer Agent will cancel such Certificated Note and shall endorse or cause to be endorsed on the schedule affixed to the applicable Global Note an appropriate notation evidencing the date of such transfer and an increase in the principal amount of the applicable Global Note equal to the principal amount of such Certificated Note.

Transfers of beneficial interests in a Restricted Global Note to transferees that take delivery in the form of beneficial interests in such Restricted Global Note may be made without providing any of the certificates referred to above or any similar documents. Transfers of beneficial interests in a Restricted Global Note to institutional accredited investors must be made in the form of Certificated Notes upon compliance with the provisions of clause (iii) above. Transfers of beneficial interests in a Restricted Global Note to transferees that take delivery in the form of Certificated Notes may be made only upon compliance with clause (1), (2) or (3) above. Transfers of beneficial interests in a Restricted Global Note to transferees that will take delivery in the form of beneficial interests in a Regulation S Global Note may be made only upon presentation of a Regulation S Transfer Certificate in the form provided in the Indenture. On or prior to the 40th day after the completion of the distribution of the notes of any Series represented by a Regulation S Global Note, transfers of beneficial interests in such Regulation S Global Note to transferees that will take delivery in the form of beneficial interests in a Restricted Global Note may be made only upon presentation of a Rule 144A Transfer Certificate in the form provided in the Indenture; after such 40th day, no such certification will be required with respect to such transfers.

## DESCRIPTION OF CAPITAL STOCK

*Set forth below is a brief summary of certain significant provisions of the Bank's bylaws and of Argentine law and regulations concerning the Bank's capital stock. This description does not purport to be complete and is qualified by reference to the bylaws, Argentine law, and BASE rules and regulations.*

The Bank's bylaws are governed by Argentine law and any action relating to enforcement of the Bank's bylaws or a shareholders' rights thereunder is required to be brought in an Argentine court. Under the Bank's bylaws, the duration of the Bank is 100 years from the date of registration of the Bank's bylaws in the Public Registry of Commerce (until October 23, 2097).

### Capital Stock

Pursuant to our bylaws, our capital stock consists of 150,000,000 common, book-entry shares, par value Ps.10 per share. The capital stock issued for each class of share is:

- Class A Shares: Ps.658,530,880
- Class B Shares: Ps.75,000,000
- Class C Shares: Ps.75,000,000
- Class D Shares: Ps.691,469,120

All the issued shares are fully paid in. No change has taken place in the last year, in relation with the quantity of shares. In the last 3 years there have not been substantial changes related to any variation in the capital stock neither in the number of shares issued among the different classes.

Pursuant to the Privatization law and the Bank's bylaws, the Bank's capital stock is divided among the following classes of shares:

- Class A Shares, which represent shares owned directly and indirectly by the Argentine government, and currently comprise 43.90% of the Bank's outstanding shares;
- Class B Shares, which represent shares currently held by Banco Nación, as trustee for the PPP, but will be offered to the Bank's employees pursuant to the PPP and which currently comprise 5% of the Bank's outstanding shares;
- Class C Shares, currently held by the Assistance Trust Trustee, which represent shares to be acquired by specified companies engaged in housing construction or real estate activities through a special program yet to be implemented, and which currently comprise 5% of the Bank's outstanding shares; and
- Class D Shares, which will represent any shares transferred to third parties, which are not included in the foregoing categories of owners. Any Class A Shares sold will be converted into Class D Shares. A certain number of Class D Shares are held in the form of ADSs. Class D Shares currently comprise approximately 46.10% of the Bank's capital stock. 13.1% percent of the total number of Class D shares, equivalent to 9,090,500 Class D shares are currently held in trust by First Trust of New York, as Option Trustee, which are held in trust for purposes of disposing, from time to time and throughout a period ending February 2, 2007, of the ADSs remaining after the exercise of the Options, pursuant to the instructions received from the Selling Shareholder.

Any Class B Shares not acquired by the Bank's employees pursuant to the PPP (upon its implementation) will be converted into Class A Shares. After implementation of the PPP, (i) any Class B shares not acquired by the Bank's employees pursuant to the PPP, shall be converted into Class D Shares; and (ii) any Class B Shares transferred to persons who are not participants in the PPP will be converted into Class D Shares. Any Class C Shares transferred to third parties which are not construction or real estate companies will be converted into Class D Shares. Class D Shares will not be converted into Class A Shares, Class B Shares or Class C Shares by virtue of

reacquisition by the Argentine government or by virtue of their acquisition by participants in the PPP or construction or real estate companies.

Since the Privatization, there has not occurred any increase of capital or issuance of new shares.

## **Voting Rights**

### ***General***

As discussed below, holders of Class A and Class D Shares have special voting rights relating to certain relevant corporate decisions. Whenever such special rights do not apply (with respect to the Class A Shares and the Class D Shares) and in all cases (with respect to the Class B Shares and the Class C Shares), each share of common stock entitles the holder to one vote. Pursuant to Argentine regulations, once the Bank has been authorized to make a public offering of any or all of its capital stock, it will not be allowed to issue multiple voting shares.

Under Argentine law, any action that would prejudice the rights of holders of a particular class of shares, but not rights of holders of other classes of shares, or affect the rights of holders of a particular class of shares in a different manner than rights of holders of other classes of shares, must be approved by the holders of such class of shares at a special meeting.

The Bank may issue voting or nonvoting preferred shares. Such preferred shares shall be divided into Classes A, B, C and D. Holders of Class A, Class B, Class C and Class D voting preferred shares will exercise voting rights and be subject to the same ownership, conversion and transfer restrictions as holders of common shares of the same class. The Bank currently has no preferred shares outstanding.

### ***Class A Shares***

Holders of Class A Shares have the right to elect at least two members of the board of directors and two alternates, notwithstanding the number of shares comprising the class at any given time. The holders of Class A Shares also have the right, as described in the following paragraph, to approve certain transactions involving the Bank and certain acquisitions of shares. Class A Shares sold by the Argentine government or the Assistance Trust Trustee convert automatically to Class C or D Shares, as the case may be. Under the Privatization law, the Argentine government must always hold at least one Class A Share.

Under the Bank's bylaws, the affirmative vote of the holders of Class A Shares is required, regardless of the percentage of those shares on the Bank's capital stock, in order to effectuate:

- mergers or spin-offs;
- an acquisition of shares constituting a Control Acquisition (as defined below) and, therefore, resulting in the Bank being subject to a control situation (as defined under Argentine Companies Law, Central Bank regulations or the Bank's bylaws);
- the transfer to third parties of a substantial part of the loan portfolio of the Bank which causes the Bank to cease or substantially reduce its residential loan and mortgage activities;
- a change in the Bank's corporate purpose;
- the transfer of the Bank's corporate domicile outside of Argentina; and
- the voluntary dissolution of the Bank.

Argentine Companies Law defines "control" as the possession, directly or indirectly, of the power to direct or cause the direction of the corporate decisions of a person, whether through the ownership of voting securities, by contract or otherwise. See "Argentine Banking System and Regulation — Argentine Banking Regulation" for a definition of control under Central Bank regulations.



The Privatization law provides that the Argentine government will exercise the voting rights of the Class A Shares held by the Assistance Trust Trustee.

### ***Class B Shares***

Upon acquisition of Class B Shares by the Bank's employees under the PPP, the holders of such shares will have the right to elect one member to the board of directors and one alternate, as long as such class represents more than 2.0% of the capital stock of the Bank issued at the time the respective shareholders' meeting is convened. Until such time, such director will be elected by the Class A Shares. The Privatization law provides that the Argentine government will exercise the voting rights of the Class B Shares prior to such shares being offered and sold. Class B Shares acquired by the Bank's employees and thereafter transferred outside the PPP convert automatically to Class D Shares. Any Class B Shares not acquired by the Bank's employees pursuant to the PPP (at the time of its implementation) will be converted into Class A Shares. After implementation of the PPP, any Class B shares not acquired by the Bank's employees pursuant to the PPP, shall be converted into Class D Shares. Each Class B Share is entitled to one vote.

### ***Class C Shares***

Upon transfer of Class C Shares to companies engaged in housing construction or real estate activities, the holders of such shares will have the right to elect one member to the board of directors and one alternate, as long as such class represents more than 3.0% of the capital stock of the Bank issued at the time the respective Shareholders' Meeting is convened. Until such time, such director will be elected by the Class A Shares. The Privatization law provides that the Argentine government will exercise the voting rights of the Class C Shares held by the Assistance Trust Trustee prior to such shares being offered and sold. Only companies which have been engaged in housing construction or real estate activities for at least one year are eligible to purchase Class C Shares. Class C Shares transferred to persons other than companies engaged in housing construction or real estate activities will be converted automatically to Class D Shares. Each Class C Share is entitled to one vote.

### ***Class D Shares***

The holders of Class D Shares shall have the right to elect nine members of the board of directors and their respective alternates. In addition, for so long as Class A Shares represent more than 42.0% of the Bank's capital, the Class D Shares shall be entitled to three votes per share, except that holders of Class D Shares will be entitled to one vote per share in the case of a vote on:

- a fundamental change in the Bank's corporate purpose;
- a change of the Bank's domicile to be outside of Argentina;
- dissolution prior to the expiration of the Bank's corporate existence;
- a merger or spin-off in which the Bank is not the surviving corporation;
- a total or partial recapitalization following a mandatory reduction of capital; and
- approval of voluntary reserves other than legal reserves when their amount exceeds the capital stock and the legal reserves.

In addition, irrespective of the percentage of the Bank's outstanding capital stock represented by Class A Shares, the affirmative vote of the holders of the Class A Shares is required to adopt certain relevant decisions. See "—Class A Shares." Pursuant to Argentine regulations, once the Bank has been authorized to make a public offering of any or all of its capital stock, it will not be allowed to issue multiple voting shares. Class D Shares will not be converted into Class A Shares, Class B Shares or Class C Shares by virtue of reacquisition by the Argentine government, PPP participants or companies engaged in housing construction or real estate activities, respectively.

### ***Class D Shares underlying the ADSs held by the Option Trustee***

The Class D Shares underlying the ADSs shares owned by the Option trustee shall be voted by the latter pursuant to the instructions received from the selling shareholder.

### ***Registration Rights***

Pursuant to a Registration Rights Agreement, holders or beneficial owners of ADSs or Class D Shares representing at least 3.0% of our outstanding stock (“Registrable Securities”) can require us, at our own cost, to file with the SEC a registration statement with respect to the Class D Shares or ADSs (a “Demand Registration Right”) and to use our best efforts to cause the ADSs to be approved for listing on the New York Stock Exchange; except in the following cases when the ADSs or Class D Shares have ceased to be Registrable Securities: (i) a registration statement with respect to the offering of such securities by the holder thereof shall have been declared effective under the Securities Act and such securities have been disposed of by such holder pursuant to such registration statement, (ii) such securities have been sold to the public pursuant to, or are eligible for sale to the public without volume or manner of sale restrictions under, Rule 144(k) (or any similar provision then in force, but not Rule 144A) promulgated under the Securities Act, (iii) such securities shall have been otherwise transferred and new certificates for such securities not bearing a legend restricting further transfer shall have been delivered by the Bank or its transfer agent and subsequent disposition of such securities shall not require registration or qualification under the Securities Act or any similar state law then in force or (iv) such securities shall have ceased to be outstanding. The Demand Registration Rights are exercisable up to four times at any time after the earlier of (i) May 2, 2000 and (ii) five months after the completion of any public offering of our capital stock in the United States. We will not be required to effect more than one demand registration in any twelve-month period. In certain instances, the Argentine government acting through Banco Nación has the right to postpone the filing of any registration statement requested to be filed pursuant to a Demand Registration Right. No Demand Registration Right has been exercised as of the date of this offering memorandum.

### **Certain Provisions Relating to Acquisitions of Shares**

#### ***Certain Provisions of the Privatization law and the Bylaws***

Pursuant to the Privatization law and the Bank’s bylaws, each individual or legal entity that belongs to the same “economic group” may not own more than 5.0% of the Bank’s capital stock. Although the Privatization law does not define the term “economic group,” as defined by regulations promulgated by the Central Bank of Argentina (the “Regulations” or the “Central Bank regulations”), the Bank will apply the meaning given to that term in the Central Bank regulations. For the definition of an “economic group” pursuant to the Regulations, see “Argentine Banking System and Regulation—Argentine Banking Regulation”. Pursuant to the terms of the Privatization law, the Ministry may establish the other terms and conditions for the Equity Offerings.

#### ***Certain Provisions Relating to the Central Bank***

Argentine law and the Regulations require that Significant Acquisitions be approved in advance by the Central Bank. “Significant Acquisition” means purchase of stock which entitles the purchaser to five percent (5.0%) or more of the Bank’s votes.

In addition, any acquisition, other than a Significant Acquisition, of 2.0% or more of the capital stock of a financial institution must be reported by the issuer to the Central Bank.

#### ***Notice of Certain Acquisitions***

Pursuant to the Bank’s bylaws, any person who, directly or indirectly, through or together with its affiliates and persons acting in concert with it, acquires Class D Shares or securities convertible into Class D Shares that would result in such person controlling more than 3.0% of the Class D Shares is required to notify the Bank within five days of such acquisition, in addition to complying with any requirements imposed by any other authority in Argentina or elsewhere where the Class D Shares are traded. Such notice must include the name or names of the person and persons, if any, acting in concert with it, the date of the acquisition, the number of shares acquired, the price at which the acquisition was made and a statement as to whether it is the intention of the persons to acquire a greater equity interest in, or control, of the Bank. Each subsequent acquisition by such person or persons requires a similar notice.

### ***Qualified tied Majority***

Action may be taken at any shareholders' meeting by an absolute majority of shares present, except that:

- (i) the affirmative vote of 75.0% of the shares entitled to vote both on the first and second call (without regard to multiple voting rights) is required for the approval of certain actions by the Bank, namely (a) the delisting of the Bank's shares from the BASE or the NYSE, (b) the transfer of the Bank's domicile outside Argentina; (c) a fundamental change in the Bank's corporate purpose and (d) certain split-ups resulting in the transfer of 25.0% or more of the Bank's assets;
- (ii) the affirmative vote of 66.0% of the shares entitled to vote both on the first and second call (without regard to multiple voting rights) is required to approve certain amendments to the Bank's bylaws, namely those which would (a) amend the Bank's bylaws to change the percentage of the Bank's capital stock ownership acquired which determines the obligation to report such purchase, or the percentage that determines what constitutes a control acquisition; (b) amend the provisions of the Bank's bylaws requiring that tender offers required under the Bank's bylaws be all-cash offers for all outstanding shares and convertible securities at no less than a specific minimum price as provided for by the Bank's bylaws; (c) amend the provisions regarding the size, nomination, election and composition of the board of directors; (d) allow the granting of certain guarantees in favor of shareholders except when the guarantee and the secured obligation were undertaken in fulfilling the corporate purpose; (e) approve the substantial reduction or total cessation of the Bank's housing loan operations; and (f) the provisions on number, nomination, election and composition of the board of directors; and
- (iii) the approval of an absolute majority of the shares (without regard to multiple voting rights) entitled to vote is required for (a) mergers and split-ups in which the Bank is not the surviving entity, (b) approval of voluntary reserves other than legal reserves when their amount exceeds the capital stock and the legal reserves, and (c) early dissolution or partial or total reassessment of capital.

### **Bylaw provisions**

#### ***Incorporation; Corporate purpose***

The Bank is a *sociedad anónima* incorporated in Argentina and registered in the Public Registry of Commerce as of October 23, 1997 (Number 12,296, Book 122, Volume A of Corporations). Under the by-laws, the duration of the Bank is one hundred years from the date of registration in the Public Registry of Commerce (until October 23, 2097). The Bank's registered corporate office is located in Reconquista 151, City of Buenos Aires.

Pursuant to Section 4 of the Bank's bylaws the purpose of the Bank is to carry on, either on its own account or through third parties, or in association with third parties, within Argentina or abroad, the following businesses: (a) banking activities contemplated in and permitted by the Financial Institutions Law and further laws, regulations and provisions governing the banking business for all commercial banks; and the servicing of the needs of housing mortgage loans; (b) insuring the risks derived from the transactions performed or property financed by it, even if not given as collateral, imposing insurance on the beneficiaries of its transactions and insuring the risks derived from the transactions set forth in Section 10 of Law 21,581, Section 13 of Law 24,143, and Law 24,626; (c) performing all securities transactions contemplated in the applicable laws and regulations that govern such business, within the guidelines set forth by the CNV, acting as a stock company (*sociedad de bolsa*) in authorized stock markets or as a broker in any other self-regulated market; (d) purchasing, selling, constructing, leasing and managing real estate and/or entering into brokerage and agency transactions and any other transaction as may be necessary to perform its banking activities; (e) acting as trustee in accordance with the provisions of Law No. 24,441.

According to the Bank's bylaws and Section 17 of Law No. 24,855, the Bank must, for the term of ten years from July 22, 1997, continue to conduct the following activities: (i) provide financing for the construction and purchase of homes within Argentina, either *per se* or through third parties, on a geographically balanced basis, in order to ensure lending to different socioeconomic groups on market conditions to be determined by the board of directors; (ii) maintain credit lines for financing the construction of homes in small municipalities on market conditions to be determined by the board of directors, by allocating annually to these activities not less than ten

percent of all construction credits, contemplating equitable geographic distribution; (iii) continue to maintain the special fund provided for in Section 13 of Law No. 24,143 on the terms set forth therein; (iv) act as agent of the Secretariat of Housing for purposes of centralizing the collection of money, issuance of funds and technical controls of the National Housing Fund (Section 10 of Law 21,581); (v) keep the powers and obligations established in Law No. 18,307 (Mortgage Registration), and Law No. 18,740 (Deed entry of Vicente López y Planes, Domingo Faustino Sarmiento, General Urquiza and Presidente Derqui neighborhoods) granted to the Banco Hipotecario Nacional, and the powers that emerge from the Section 12 of Law No. 21,508 (cancellations by order); (vi) perform the legal acts which are necessary for the fulfillment of the operations derived from the application of Decree 407/91, as supplemented and amended (sale of vacant fiscal real property); (vii) continue with the exercise of the Bank's rights derived from the transfer to Banco Hipotecario Nacional of the Postal Savings, activities established by the Decree 1438/94, including the rights stemming from ownership of its trademark, which the company shall continue to exercise upon expiration of the term of ten years herein set forth. The referred activities include the accounts corresponding to "*Juveniles que trabajan*" according to the provisions of the Labor Law and convicts' earning deposit accounts according to the legislation in force. The Bank shall regulate this operation in compliance with the provisions of the Central Bank. It shall also administrate minor accounts pursuant to the conditions established in Section 33 of Law No. 21,963, applying the unattachability of saving accounts balances according to Section 34 of the referred law; (viii) act as Trustee of the Trust Fund for Housing Financing constituted by the Decree No. 370/96; and (ix) participate in the projects developed by the National Entity for the Administration of Railways Property (*Ente Nacional de Administración de Bienes Ferroviarios*) pursuant to the agreement dated April 29, 1997 approved by the Decree No. 585/97.

#### ***Relations between the Directors and the Bank; Conflict of Interest***

Section 14 of the Bank's bylaws provides that the directors determine the compensation of the members of the Board that perform executive, technical and administrative duties or special commissions of a level consistent with the one prevailing in the market, with interested directors abstaining and with the subsequent ratification of such decision through a shareholders meeting. In addition, Section 6.8 of the Regulation of the board of directors, establishes that the director with an interest contrary to or competing with the Bank shall inform of such a situation before the matter is considered. In this case, the interested director shall leave the meeting until the directors finish considering the matter. In case of breach of the aforesaid obligation, a shareholders' meeting shall be called to decide: (i) the eventual adoption of punishments; (ii) removal or suspension of the director or (iii) initiation of action against the director (Section 10 of the board of directors Regulations). Pursuant to Section 10 of the Regulation of the board of directors, the breach of this obligation shall be evaluated by the board of directors who may apply penalties to the breaching director.

Article 272 of Argentine Corporate Law establishes that directors that have interests conflicting with those of the Bank, must inform the board of directors and the Supervisory Committee of such a conflict. If such directors do not comply with this provision, they will be jointly and severally liable for the damages derived from their actions or omissions.

#### ***Shareholder rights and obligations***

##### ***Participation in the Bank's liquidation***

Upon liquidation of the Bank, one or more liquidators may be appointed to wind up its affairs. In the event of liquidation, the assets of the Bank will be applied to satisfy its debts and liabilities. Any remaining amounts will be distributed to the shareholders in proportion to their respective shareholdings, subject to preferential rights of any outstanding preferred shares.

##### ***Reduction of Capital***

Capital reductions may be voluntary or mandatory. Voluntary reductions of capital must be approved by an extraordinary meeting of shareholders and with a justified report from the Supervisory Committee and may take place only after notice thereof is published and creditors are given an opportunity to obtain payment or collateralization of their claims. According to Section 206 of Argentine Corporate Law, reductions of capital are mandatory when losses have exceeded reserves and more than 50% of the Bank's stated capital. However, Decree 540/2005 has suspended the application of such Section 206 until December 10, 2005. The Bank's shares are subject

to redemption in connection with a reduction in the capital stock that requires approval by majority vote of an extraordinary shareholders meeting. Any shares so redeemed must be cancelled by the Bank.

### ***Acquisition of its own shares by the issuer***

According to Section 221 of the Argentine Corporate Law and Resolution 400/02 issued by the CNV, corporations may acquire their own issued shares, as long as they are admitted to be listed by a self-regulated entity. Once such shares have been fully paid for, the shares will have been acquired with net profits and free or voluntary reserves resulting from the latest financial statements approved by the board of directors.

The decision of a company to acquire its own shares must be (i) adopted by the board of directors, prior to report of the Audit Committee or of the control body, (ii) relayed to the CNV or other self-regulated entities, and (iii) published in the bulletin of such self-regulated entities or in a newspaper. The board of directors' resolution must establish the purpose of the acquisition, the maximum amount to be invested, the maximum number of shares or the maximum percentage of capital that may be acquired and the maximum price to be paid for the shares. The board of directors must prove to the CNV that it has sufficient liquidity to purchase the shares, and that the payment of shares does not affect the company's solvency. The total amount of shares acquired and already held by the company must not exceed 10% of the company's capital stock. The shares acquired by the company exceeding said limits must be disposed of within ninety days from the date of the acquisition causing the excess.

The shares acquired according to these provisions must be disposed of by the company within a year from the date of their acquisition, unless a regular meeting authorizes an extension. At the moment of transferring them, the company shall carry out a preemptive right offering the shares to the shareholders according to the terms established in section 221 of Argentine Corporate Law and its amending regulations. The rights of the shares acquired by the company shall be suspended until the shares are sold to a third party and shall not be considered for the calculation of the quorum and majorities.

Once the term is over, and there has not been a shareholders' meetings resolution extending the term, the company's capital shall be decreased by law in an amount equal to the par value of the repurchased shares remaining in portfolio, which shall be cancelled.

Finally, the company cannot acquire its own shares: (i) if the company knew of the existence of a public offering of its shares; (ii) before the end of the first day following the publication of the company's decision to acquire its own shares; or (iii) if the shares have not been fully paid in.

The board of directors' meeting of the Bank held on August 22, 2000 approved the acquisition by the Bank of its own shares, in order to maintain the value of the shares and avoid severe damage to the Bank. Consequently, the Bank acquired 994,015 Class D Shares for the aggregate amount of Ps.6,713,500. The Bank intended to keep the acquired shares for three years, the maximum period permitted by law. The Bank's shareholders' meeting held on May 31, 2001 approved the justification made by the board of directors for the acquisition by the Bank of its own shares. Since December 2003 and for a 30-day period, the Bank sold, by means of preemptive offer to its class D shareholders, all the shares of such class held by it. As of June 30, 2004 the Bank has no treasury stock.

- **Shareholders' Meetings**

#### ***Notice of Shareholders' Meetings***

Pursuant to Sections 21 and 22 of the Bank's bylaws, the regular and extraordinary shareholders' meetings of the Bank shall be called to consider the matters established in Sections 234 and 235 of Argentine Corporate Law. Regular shareholders' meetings on the first and second call may be called and held simultaneously. Both regular and extraordinary shareholders' meetings shall be called by means of notices published in the Official Gazette, in one of the major newspapers of Argentina and in the newsletters of the stock exchanges and securities markets of the country where the Banks' shares are listed for a five-day term. According to Decree No. 677/01, the minimum term for calling a meeting is 20 days and the maximum term is 45 days. The board of directors shall order the publications to be made abroad to comply with the laws and practices in effect in the jurisdictions of the stock exchanges and securities markets on which the shares are listed. The board of directors may use the services of companies specialized in communications with shareholders and use other dissemination media to let them know its

opinion on the subject matters to be dealt with at the relevant meeting. The cost of such services and dissemination shall be borne by the Bank.

### ***Quorum requirements***

The quorum for regular meetings on the first call is a majority of the shareholders with the right to vote. The quorum for extraordinary meetings on the first call is 60% of the shareholders with the right to vote. The quorum for regular and extraordinary meetings on the second call is whatever shareholders are present entitled to vote.

Resolutions in regular and extraordinary shareholders' meetings shall be adopted by the majority of the present votes, except for the cases where the bylaws establish special majorities or require the approval of Class A Shares. See "Voting Rights – Class A Shares" and Certain Provisions Relating to Acquisitions of Shares – Qualified tied Majority".

Shareholders may attend meetings by means of proxies by granting a private instrument of proxy (the signature of which must be attested by a court officer, a notary public or a bank). Shareholders shall request to Caja de Valores S.A. a certificate of shares and deposit it in the Bank three days prior to the shareholders' meeting.

### ***Resolutions affecting the rights of a Class of shares***

Pursuant to Section 24(v) of the bylaws and Section 250 of the Argentine Corporate Law, in order to affect the rights of a class of shareholders, the consent of such a class shall be given at a Special Meeting.

### **Foreign Shareholders**

Section 123 of Argentine Corporate Law establishes that in order to incorporate a company in Argentina, or to be a shareholder of an Argentine company, a foreign company must comply with the provisions of Section 123 of said law, including filing with the Public Registry of Commerce a copy of: (i) its articles of incorporation and bylaws, (ii) a certificate issued by a competent authority in the country of the foreign shareholder stating that the company has been duly incorporated pursuant to its laws and that it is in good standing, and (iii) a power of attorney appointing a legal representative in Argentina with power to do all the necessary filings in the Public Registry of Commerce and to establish a domicile in Argentina. Registration may also be required of a foreign shareholder in order to exercise its voting rights.

Since the effectiveness of General Resolution No. 7/2003 issued by the Superintendence of Corporations, companies applying for their registration pursuant to the provisions of section 123 of the Business Companies Law, shall be required, in addition to the aforementioned requirements, to report whether or not they are subject to any legal prohibition or restriction against conducting any business or their main business in their place of incorporation and to evidence that, as of the application date, they comply with at least one of the following conditions outside of Argentina: (a) existence of one or more branches or permanent representations; (b) equity ownerships in other companies qualifying as non-current assets or (c) ownership of fixed assets in their place of incorporation. Further, the legal representatives of foreign companies already registered shall be required to submit an accounting certification showing the composition and value of the corporate assets located outside Argentina when reporting their cross interests and to simultaneously evidence compliance with General Resolution No. 1375/02 of the Federal Administration of Public Revenues (which requires the representatives of foreign individuals or entities to report any transaction entered into with Argentine residents, regardless of their nature, including transactions made for no consideration).

### **Capital Increases; Issuance of shares**

Our by laws provide that the capital stock may be increased up to five times its current amount by resolution at an ordinary shareholders' meeting as provided for by Section 188 of Argentine Corporate Law. Such limitation does not apply if the Bank is authorized to publicly offer its shares. The shareholders' meeting must set forth the terms of the shares to be issued as a result of such capital increases, and may delegate to the board of directors the authority to determine the time of such issuance and the payment terms and conditions and any other delegation authorized by law. Notwithstanding any changes that may arise from the exercise of preemptive rights

and accretion rights as provided in the bylaws, any issuance of common or preferred stock are to be made by classes maintaining the existing proportion among the different classes as of the date of commencement of the subscription period.

Our bylaws also provide that any convertible securities issued by the Bank can only be convertible into Class D Shares and the issuance thereof must be authorized by a special meeting of Class D shareholders.

## **Restrictions on Control Acquisitions**

### ***Required Approvals and Tender Offers***

Pursuant to the Bank's bylaws, each acquisition of shares or convertible securities as a result of which the acquiror, directly or indirectly through or together with its affiliates (collectively, an "Acquiror"), would own or control Class D Shares that, combined with such Acquiror's prior Class D Share holdings, would represent 30.0% or more of the outstanding capital stock of the Bank (collectively, "Control Acquisitions"), must be carried out in accordance with the procedure described in this subsection, except for acquisitions by an Acquiror owning or controlling more than 50.0% of the Bank's capital prior to such acquisition. Any transaction that would result in the Acquiror holding a controlling interest in the Bank, as defined under Argentine law, also must be approved in advance by the holders of the Class A Shares.

Prior to consummating any Control Acquisition, an Acquiror must obtain the approval of the holders of the Class A Shares, and make a public tender offer for all outstanding shares and securities convertible into shares of the Bank. The Acquiror will be required to provide the Bank written notice of and certain specified information with respect to any such tender offer, as well as the terms and conditions of any agreement or proposed agreement which, if consummated, would result in a Control Acquisition (a "Proposed Agreement"), at least 15 business days prior to the commencement of the offer. The Bank will send each shareholder and holder of convertible securities a copy of such notice, at the Acquiror's expense. The Acquiror is required to publish a notice containing substantially the same information in a newspaper of general circulation in Buenos Aires, New York City and any other city in which the Bank's securities are traded on an exchange or other securities market, as well as in the informative bulletins of those exchanges or securities markets. The notice must be published at least once per week beginning on the date notice is provided to the Bank, until the offer expires.

The board of directors shall call a special meeting of the holders of Class A Shares for the tenth business day following the receipt of the Acquiror's notice for the purpose of considering whether consummation of the tender offer will result in a benefit for the Bank or for the general interest. If the special meeting is not held, or if the Class A shareholders disapprove the tender offer, neither the tender offer nor the Proposed Agreement may be consummated.

The tender offer must be carried out in accordance with a procedure specified in the Bank's bylaws and in accordance with any additional or stricter requirements of jurisdictions, exchanges or markets in which the offer is made or in which the Bank's securities are traded. Under the Bank's bylaws, the tender offer must provide for the same price in cash for all shares tendered. Such price may not be less than the highest of the following (the "Minimum Price"):

- (i) the highest price paid by or on behalf of the Acquiror for Class D Shares or convertible securities during the two years prior to the notice provided to the Bank, adjusted for any stock split, stock dividend, subdivision or reclassification affecting the Class;
- (ii) the highest selling closing price for the Class D Shares on the BASE during the 30-day period immediately preceding the notice provided to the Bank, adjusted for any stock split, stock dividend, subdivision or reclassification affecting the Class;
- (iii) the price resulting from clause (ii) above, multiplied by a fraction, the numerator of which shall be the highest price paid by or on behalf of the Acquiror for Class D Shares during the two years immediately preceding the date of the notice provided to the Bank and the denominator of which shall be the closing price for the Class D Shares on the BASE on the date immediately preceding the first day in

such two-year period on which the Acquiror acquired any interest in or right to any Class D Shares, adjusted for any stock split, stock dividend, subdivision or reclassification affecting the Class; and

(iv) the net earnings per Class D Share during the four most recent full fiscal quarters immediately preceding the date of the notice provided to the Bank, multiplied by the higher of (a) the price/earnings ratio during such period for Class D Shares (if any) and (b) the highest price/earnings ratio for the Bank in the two-year period immediately preceding the date of the notice provided to the Bank, in each case determined in accordance with standard practices in the financial community.

Any such offer must remain open for a minimum of 90 days following the provision of notice to the shareholders or first publication of the offer, and shareholders shall have the right to withdraw tendered shares at any time until the close of the offer. Following the close of such tender offer, the Acquiror will be obliged to acquire all tendered shares or convertible securities, provided that if the number of shares tendered is less than the minimum, if any, upon which such tender offer was conditioned, the Acquiror may withdraw the tender offer. The Acquiror may consummate any Proposed Agreement within 30 days following the close of the tender offer, provided that if such tender offer was conditioned on the acquisition of a minimum number of shares, the Proposed Agreement may be consummated only if such minimum was reached. If no Proposed Agreement existed, the Acquiror may acquire the number of shares indicated in the notice provided to the Bank on the terms indicated in such notice to the extent such number of shares were not acquired in the tender offer, provided that any condition relating to a minimum number of shares tendered has been met.

Decree 677/01 has established a mandatory tender offer regulation in order to prevent the exclusion of minority shareholders in the sale of shares that grant control of the company. However, companies may exercise an option in order to reject and not be subject to these provisions. In an extraordinary shareholders meeting held on May 30, 2003 the Bank's by-laws were amended to provide that the Bank shall not be subject to the referred to provisions which amendment has not been filed with the Public Registry of Commerce.

#### ***Restrictions on Related Party Transactions***

Pursuant to the Bank's bylaws, any merger, consolidation or other combination with substantially the same effect involving the Bank and an Acquiror that has previously carried out a Control Acquisition, or by any other person or persons, if such transaction would have substantially the same effects as a Control Acquisition in respect of the holding of Class D Shares (a "Related Party Transaction") must be carried out in accordance with the provisions described below.

Each tendering shareholder must receive the same price per share in any Related Party Transaction, which price shall not be less than the highest of the following:

(i) the highest price per share paid by or on behalf of the party seeking to carry out the Related Party Transaction (an "Interested Shareholder") for (a) shares of the Class to be transferred in the Related Party Transaction within the two-year period immediately preceding the announcement of the Related Party Transaction or (b) shares of the Class acquired in any Control Acquisition, in each case adjusted for any stock split, stock dividend, subdivision or other reclassification affecting the Class;

(ii) the highest closing sale price of shares of the Class on the BASE during the 30 days immediately preceding the announcement of the Related Party Transaction or the date of any Control Acquisition by the Interested Shareholder, adjusted for any stock split, stock dividend, subdivision or reclassification affecting the Class;

(iii) the price per share resulting from clause (ii), multiplied by a fraction, the numerator of which shall be the highest price paid by or on behalf of the Interested Shareholder for any share of the Class during the two years immediately preceding the announcement of the Related Party Transaction and the denominator of which shall be the closing sale price for shares of the Class on the date immediately preceding the first day in the two-year period referred to above on which the Interested Shareholder acquired any interest or right in shares of the Class, in each case as adjusted for any stock split, stock dividend, subdivision or reclassification affecting the Class; and



(iv) the net earnings per share of the shares of the Class during the four most recent full fiscal quarters preceding the announcement of the Related Party Transaction multiplied by the higher of (a) the price/earnings ratio during such period for the shares of the Class (if any) and (b) the highest price/earnings ratio for the Bank in the two-year period preceding the announcement of the Related Party Transaction, in each case determined in accordance with standard practices in the financial community.

Any shares acquired in a Control Acquisition or a Related Party Transaction carried out other than in accordance with the provisions described in this subsection will have no voting, dividend or any other distribution rights, and such shares will not be counted for purposes of determining the existence of a quorum at shareholders' meetings.

#### ***Acquisitions by the Argentine government***

The threshold levels at which an acquisition of shares by the Argentine government is deemed to be a Control Acquisition, and the sanctions applicable to Control Acquisitions carried out by the Argentine government in violation of the procedure described above, are different than those applicable to acquisitions of shares by other persons. Acquisitions of shares by the Argentine government (i) which result in the Argentine government owning or controlling an aggregate of 49.0% or more of the Bank's outstanding capital stock or (ii) acquisitions by the Argentine government of 8.0% or more of the outstanding Class D Shares, provided that the Class A Shares represent at least 5.0% of the outstanding capital of the Bank as of October 23, 1997, will require the Argentine government to make a tender offer for all the outstanding Class D Shares. Acquisitions by the Argentine government which do not satisfy the requirements of (i) or (ii) above are subject to the threshold percentages described with respect to Control Acquisitions. See "—Required Approvals and Tender Offers."

With respect to acquisitions by the Argentine government deemed to be Control Acquisitions the required tender offer need only be conducted for all outstanding Class D Shares.

Any Control Acquisitions carried out by the Argentine government other than in accordance with the procedure described above will result in the cancellation of the voting, dividend and other distribution rights of the shares so acquired and in the exclusion of such shares for the calculation of the *quorum* in the shareholders' meetings, except for certain indirect acquisitions made for no charge or as a result of a situation of fact or law (*e.g.*, through foreclosure or liquidation proceedings) which the Argentine government has not acted with the purpose of acquiring shares above the established limit, and after which the Argentine government does not own or control 49.0% or more of the outstanding capital stock or more than 50.0% of the outstanding Class D Shares, in which case only the voting rights of the Argentine government with respect to the shares so acquired will be withdrawn.

#### **Dividends**

The declaration, amount and payment of dividends on the Bank's capital stock are determined by majority vote of the capital stock and are based generally but not necessarily on the annual recommendation of the board of directors. The board of directors submits the financial statements of the Bank for the preceding fiscal year, together with reports thereon by the board and the Supervisory Committee, to the Annual Ordinary Shareholders' Meeting for approval. The shareholders, once they have approved the financial statements, determine the allocation of the Bank's net income for such year. The Bank is required to allocate a percentage of net income (currently 20.0%) to the legal reserve. If the legal reserve is subsequently impaired, dividends may not be paid until the legal reserve has been fully reestablished, which percentage is not available for distribution. Under the Bank's bylaws, after the allocation to the legal reserve has been made and after segregating an amount of the annual net income for the required payment of fees to the members of the board of directors and of the Supervisory Committee, an amount of the annual net income will be segregated to pay dividends on preferred stock, if any. The remainder of the annual net income may be distributed as dividends on common stock or retained as a voluntary reserve, contingency reserve or other account, or any combination thereof, all as determined by the shareholders' meeting. Following the implementation of the PPP and for a period until the earlier of (i) ten years thereafter or (ii) the total payment of the price of the transfer of the shares, up to 0.5% of the Bank's annual income will be paid to the beneficiaries of the PPP, through a charge to income.

Under Argentine law, dividends may be lawfully declared and paid by the Bank only out of the balance of its net income for the relevant fiscal year after complying with the requirements set forth above, plus retained

earnings for prior fiscal years, if any, reflected in the Bank's annual audited financial statements approved at an Ordinary Shareholders' Meeting.

Under CNV regulations and the Bank's bylaws, cash dividends must be paid to shareholders within 30 days of the shareholders' meeting approving the dividend. Payment of dividends in shares requires authorization from the CNV, which authorization must be requested within ten days after the shareholders' meeting approving the dividend. The Bank must make payment available to shareholders no later than three months of the Bank's receipt of the CNV approval. Payment of dividends in shares and cash also must be made available to shareholders within three months of such notice. Five days prior to the date the dividends will be available to the shareholders, the Bank shall inform such circumstance to the CNV.

The right to collection shall be barred in favor of the Bank after three years counted as from the date when those dividends were made available to the shareholders.

In addition, the amount, if any, of dividends that holders of ADS will receive in US dollars will be affected by, among other things, any exchange control policies introduced by Argentina.

On May 5, 2003, the Central Bank issued Communication "A" 3574, establishing that the distribution of dividends of financial institutions subject to its supervision shall be suspended until the Central Bank communicates the contrary. Later, on June 3, 2004 the Central Bank discontinued, through Communication "A" 4152, the suspension of distribution of profits by Financial Institutions. However, institutions which decide to so proceed shall obtain the prior authorization of the Financial Superintendency.

## TAXATION

### United States Federal Income Taxation

**To ensure compliance with Internal Revenue Service Circular 230, prospective investors are hereby notified that any discussion of tax matters set forth in this offering memorandum was written in connection with the promotion or marketing of the transactions or matters addressed herein and was not intended or written to be used, and cannot be used by any prospective investor, for the purpose of avoiding tax-related penalties under federal, state or local tax law. Each prospective investor should seek advice based on its particular circumstances from an independent tax advisor.**

The following summary describes the material United States federal income tax consequences of the ownership of notes as of the date hereof. Except where noted, it deals only with notes held as capital assets by United States Holders (as defined below) and does not deal with special situations, such as those of dealers in securities or currencies, financial institutions, regulated investment companies, real estate investment trusts, tax-exempt entities, insurance companies, persons holding notes as a part of a hedging, integrated, conversion or constructive sale transaction or a straddle, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, persons liable for alternative minimum tax, investors in pass-through entities or holders of notes whose “functional currency” is not the US dollar. Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified so as to result in United States federal income tax consequences different from those discussed below. The discussion below assumes that all notes issued under the program will be classified for United States federal income tax purposes as our indebtedness, and you should note that in the event of an alternative characterization, the tax consequences would differ from those discussed below. Any special United States federal income tax considerations relevant to a particular issue of the notes will be provided in the applicable pricing supplement. Persons considering the purchase, ownership or disposition of notes should consult their own tax advisors concerning the United States federal income tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.

As used herein, a “United States Holder” of a note means a holder that is (i) an individual citizen or resident of the United States, (ii) a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust if it (X) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (Y) has a valid election in effect under applicable United States Treasury Regulations to be treated as a United States person.

If a partnership holds our notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding our notes is urged to consult its tax advisors.

#### *Payments of Interest*

Except as set forth below, stated interest on a note will generally be taxable to a United States Holder as ordinary income at the time it is paid or accrued in accordance with the United States Holder’s method of accounting for tax purposes.

In addition to interest on the notes, a United States Holder will be required to include in income any Additional Amounts and any tax withheld from interest payments notwithstanding that such withheld tax is not in fact received by such United States Holder. A United States Holder may be entitled to deduct or credit such tax, subject to applicable limitations in the Code including that the election to deduct or credit foreign taxes applies to all of the United States Holder’s foreign taxes for a particular taxable year. Interest income (including Argentine taxes withheld therefrom and Additional Amounts) and original issue discount (as defined below) on a note generally will constitute foreign source income and generally will be considered passive income, (unless if Argentine withholding is imposed at a rate of 5% or more, in which case, for taxable years beginning on or before December 31, 2006, such income generally will be considered “high withholding tax interest”), for purposes of computing the foreign tax

credit. A United States Holder will generally be denied a foreign tax credit for foreign taxes imposed with respect to the notes where the United States Holder does not meet a minimum holding requirement during which it is not protected from risk of loss. The rules governing the foreign tax credit are complex. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

### ***Original Issue Discount***

United States Holders of notes issued with original issue discount (“OID”) will be subject to special tax accounting rules, as described in greater detail below. United States Holders of such notes should be aware that they generally must include OID in gross income in advance of the receipt of cash attributable to that income. However, United States Holders of such notes generally will not be required to include separately in income cash payments received on the notes, even if denominated as interest, to the extent such payments do not constitute qualified stated interest (as defined below). Notes issued with OID will be referred to as “Original Issue Discount Notes”. Notice will be given in the applicable pricing supplement when the Bank determines that a particular note will be an Original Issue Discount Note.

Additional rules applicable to Original Issue Discount Notes that are denominated in or determined by reference to a Specified Currency other than the United States dollar are described under “Foreign Currency Notes” below.

A note with an “issue price” that is less than its stated redemption price at maturity (the sum of all payments to be made on the note other than “qualified stated interest”) will be issued with OID unless such difference is *de minimis* (i.e., less than 0.25 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity). The “issue price” of each note in a particular offering will be the first price at which a substantial amount of that particular offering is sold (other than to an underwriter, broker, placement agent or wholesaler). The term “qualified stated interest” means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate or, subject to certain conditions, based on one or more interest indices. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments. Notice will be given in the applicable pricing supplement when the Bank determines that a particular note will bear interest that is not qualified stated interest.

In the case of a note issued with *de minimis* OID, the United States Holder generally must include such *de minimis* OID in income as stated principal payments on the notes are made in proportion to the stated principal amount of the note. Any amount of *de minimis* OID that has been included in income shall be treated as capital gain.

Certain of the notes may be redeemed prior to their Stated Maturity at the option of the Bank and/or at the option of the holder. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. Persons considering the purchase of Original Issue Discount Notes with such features should carefully examine the applicable pricing supplement and should consult their own tax advisors with respect to such features since the tax consequences with respect to OID will depend, in part, on the particular terms and features of the notes.

United States Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includible in income by the initial United States Holder of an Original Issue Discount Note is the sum of the “daily portions “of OID with respect to the note for each day during the taxable year or portion of the taxable year in which such United States Holder held such note (“accrued OID”). The daily portion is determined by allocating to each day in any “accrual period” a *pro rata* portion of the OID allocable to that accrual period. The “accrual period” for an Original Issue Discount Note may be of any length and may vary in length over the term of the note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the note’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the

final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The “adjusted issue price” of a note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortization of any acquisition or bond premium, as described below) and reduced by any payments made on such note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a United States Holder will have to include in income increasingly greater amounts of OID in successive accrual periods. The Bank is required to provide information returns stating the amount of OID accrued on notes held of record by persons other than certain exempt holders such as corporations.

In the case of an Original Issue Discount Note that is a Floating Rate Note, both the “yield to maturity” and “qualified stated interest” will be determined solely for purposes of calculating the accrual of OID as though the note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index, or if the principal amount of the notes is indexed in any manner. Persons considering the purchase of Floating Rate Notes should carefully examine the applicable pricing supplement and should consult their own tax advisors regarding the United States federal income tax consequences of the holding and disposition of such notes.

United States Holders may elect to treat all interest on any note as OID and calculate the amount includible in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. United States Holders should consult with their own tax advisors about this election.

### ***Short-Term Notes***

In the case of Original Issue Discount Notes having a term of one year or less (“Short-Term Notes”), all payments (including all stated interest) will be included in the stated redemption price at maturity and, thus, United States Holders will generally be taxable on the discount in lieu of stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a Short-Term Note, unless the United States Holder elects to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method United States Holders of a Short-Term Note are not required to include accrued discount in their income currently unless they elect to do so (but may be required to include any stated interest in income as it is received). United States Holders that report income for United States federal income tax purposes on the accrual method and certain other United States Holders are required to accrue discount on such Short-Term Notes (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a United States Holder that is not required, and does not elect, to include discount in income currently, any gain realized on the sale, exchange or retirement of the Short-Term Note will generally be ordinary income to the extent of the discount accrued through the date of sale, exchange or retirement. In addition, a United States Holder that does not elect to include currently accrued discount in income may be required to defer deductions for a portion of the United States Holder’s interest expense with respect to any indebtedness incurred or continued to purchase or carry such notes.

### ***Market Discount***

If a United States Holder purchases a note (other than an Original Issue Discount Note) for an amount that is less than its stated redemption price at maturity or, in the case of an Original Issue Discount Note, its adjusted issue price, the amount of the difference will be treated as “market discount” for United States federal income tax purposes, unless such difference is less than a specified *de minimis* amount. Under the market discount rules, a United States Holder will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a note as ordinary income to the extent of the market discount which has not previously been included in income and is treated as having accrued on such note at the time of such payment or disposition. In addition, the United States Holder may be required to defer, until the maturity of the note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry such note.

Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the note, unless the United States Holder elects to accrue on a constant interest method. A United States Holder of a note may elect to include market discount in income currently as it accrues (on either a ratable or constant interest method), in which case the rule described above regarding deferral of interest deductions will not apply.

#### ***Acquisition Premium; Amortizable Bond Premium***

A United States Holder that purchases an Original Issue Discount Note for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the note after the purchase date other than payments of qualified stated interest will be considered to have purchased such note at an “acquisition premium.” Under the acquisition premium rules, the amount of OID which such United States Holder must include in its gross income with respect to such note for any taxable year will be reduced by the portion of such acquisition premium properly allocable to such year.

A United States Holder that purchases a note for an amount in excess of the sum of all amounts payable on the note after the purchase date other than qualified stated interest will be considered to have purchased the note at a “premium” and will not be required to include OID, if any, in income. A United States Holder generally may elect to amortize the premium over the remaining term of the note on a constant yield method as an offset to interest when includible in income under the United States Holder’s regular accounting method. Special rules limit the amortization of premium in the case of convertible debt instruments. Bond premium on a note held by a United States Holder that does not make such an election will decrease the gain or increase the loss otherwise recognized on disposition of the note.

#### ***Sale, Exchange and Retirement of Notes***

A United States Holder’s tax basis in a note will, in general, be the United States Holder’s cost therefor, increased by OID, market discount or any discount with respect to a Short-Term Note previously included in income by the United States Holder and reduced by any amortized premium and any cash payments on the note other than qualified stated interest. Upon the sale, exchange, retirement or other disposition of a note, a United States Holder will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued and unpaid interest which will be treated as a payment of interest for United States federal income tax purposes) and the adjusted tax basis of the note. Except with respect to certain Short-Term Notes and to market discount, as described above, with respect to gain or loss attributable to changes in exchange rates, as described below, with respect to certain Foreign Currency Notes, as described below, and with respect to contingent payment debt instruments, which this summary generally does not discuss, such gain or loss will be capital gain or loss. Gain or loss realized on the sale, exchange or retirement of a note will generally be treated as United States source gain or loss. Capital gains of individuals derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

#### ***Foreign Currency Notes***

The following is a summary of the principal United States federal income tax consequences to a United States Holder of the ownership of a note denominated in a Specified Currency other than United States dollars (a “Foreign Currency Note”).

##### ***Interest Payments***

United States Holders who use the cash method of accounting are required to include in income the United States dollar value of the amount of interest received, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into United States dollars. No exchange gain or loss is recognized with respect to the receipt of such payment.

United States Holders who must accrue interest on an accrual basis may determine the amount of income recognized with respect to such interest payment in accordance with either of two methods. Under the first method, the United States Holder will be required to include in income for each taxable year the United States dollar value of

the interest that has accrued during such year, determined by translating such interest at the average rate of exchange for the period or periods during which such interest accrued. Under the second method, an accrual basis holder may elect to translate interest income at the spot rate on the last day of the accrual period (or last day of the taxable year in the case of an accrual period that straddles the holder's taxable year) or on the date the interest payment is received if such date is within five days of the end of the accrual period. This election must be uniformly applied to all debt instruments each year and cannot be revoked without the consent of the Internal Revenue Service ("IRS"). Upon receipt of an interest payment on such note (including, upon the sale of such note, the receipt of proceeds which include amounts attributable to accrued interest previously included in income), such United States Holder will recognize ordinary income or loss in an amount equal to the difference between the United States dollar value of such payment (determined by translating any foreign currency received at the spot rate for such foreign currency on the date received) and the United States dollar value of the interest income that such United States Holder has previously included in income with respect to such payment.

#### *Original Issue Discount Notes*

OID on a Note that is also a Foreign Currency Note will be determined for any accrual period in the applicable foreign currency and then translated into United States dollars in the same manner as interest income accrued by a holder on the accrual basis, as described above. Upon receipt of OID on such note (including, upon the sale of such note, the receipt of proceeds attributable to OID previously included in income), such United States Holder will recognize ordinary income or loss in an amount determined in the same manner as interest income received by a holder on the accrual basis, as described above.

#### *Market Discount*

The amount of market discount on Foreign Currency Notes includible in income will generally be determined by translating the market discount determined in the foreign currency into United States dollars at the spot rate on the date the Foreign Currency Note is retired or otherwise disposed of. If the United States Holder has elected to accrue market discount currently, then the amount which accrues is determined in the foreign currency and then translated into United States dollars on the basis of the average exchange rate in effect during such accrual period. A United States Holder will recognize exchange gain or loss with respect to market discount which is accrued currently using the approach applicable to the accrual of interest income as described above.

#### *Amortizable Bond Premium*

Bond premium on a Foreign Currency Note will be computed in the applicable foreign currency. With respect to a United States Holder that elects to amortize the premium, the amortizable bond premium will reduce interest income in the applicable foreign currency. At the time bond premium is amortized, exchange gain or loss (which is generally ordinary income or loss) will be realized based on the difference between spot rates at such time and at the time of acquisition of the Foreign Currency Note. A United States Holder that does not elect to amortize bond premium will translate the bond premium, computed in the applicable foreign currency, into United States dollars at the spot rate on the maturity date and such bond premium will constitute a capital loss which may be offset or eliminated by exchange gain.

#### *Sale, Exchange and Retirement of Foreign Currency Notes*

Upon the sale, exchange, retirement or other taxable disposition of a Foreign Currency Note, a United States Holder will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued and unpaid interest, which will be treated as a payment of interest for United States federal income tax purposes) and the United States Holder's adjusted tax basis in the Foreign Currency Note. Subject to the foreign currency rules discussed below, such gain or loss will be capital gain or loss. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realized on the sale, exchange or retirement of a Foreign Currency Note will generally be treated as United States source gain or loss.

If a United States Holder's Foreign Currency Note is sold, exchanged or retired for an amount denominated in foreign currency, then the United States Holder's amount realized generally will be based on the spot rate of the

foreign currency on the date of sale, exchange or retirement. If the Foreign Currency Notes are traded on an established securities market by a cash method taxpayer, foreign currency paid or received is translated into United States dollars at the spot rate on the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment with respect to the purchase and sale of Foreign Currency Notes traded on an established securities market, provided that the election is applied consistently.

A United States Holder's initial tax basis in a Foreign Currency Note generally will be the United States Holder's cost therefor. If a United States Holder purchased a Foreign Currency Note with foreign currency, the United States Holder's cost will be the United States dollar value of the foreign currency amount paid for such Foreign Currency Note determined at the time of such purchase. If a United States Holder purchased a Foreign Currency Note with previously owned foreign currency, the United States Holder will recognize ordinary exchange gain or loss at the time of purchase attributable to the difference at the time of purchase, if any, between the United States Holder's tax basis in such foreign currency and the fair market value of the Foreign Currency Note in United States dollars at the spot rate on the date of purchase. However, if the Foreign Currency Notes are traded on an established securities market by a cash method taxpayer, foreign currency paid or received is translated into United States dollars at the spot rate on the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment with respect to the purchase and sale of Foreign Currency Notes traded on an established securities market, provided that the exception is applied consistently; otherwise the value of the foreign currency is determined at the spot rate on the date of sale.

Upon the sale, exchange or retirement of a Foreign Currency Note, a United States Holder will recognize exchange gain or loss with respect to the principal amount of such Foreign Currency Note. For these purposes, the principal amount of the Foreign Currency Note is the United States Holder's purchase price for the Foreign Currency Note calculated in the foreign currency on the date of purchase, and the amount of exchange gain or loss recognized is equal to the difference between (i) the United States dollar value of the principal amount determined on the date of the sale, exchange, retirement or other disposition of the Foreign Currency Note and (ii) the United States dollar value of the principal amount determined on the date such United States Holder purchased the note. Such gain or loss will be treated as ordinary income or loss and generally will be United States source gain or loss. The realization of such gain or loss will be limited to the amount of overall gain or loss realized on the disposition of a Foreign Currency Note.

#### *Exchange Gain or Loss with Respect to Foreign Currency*

A United States Holder's tax basis in the foreign currency received as interest on a Foreign Currency Note will be the United States dollar value thereof at the spot rate in effect on the date the foreign currency is includible in income. A United States Holder's tax basis in foreign currency received on the sale, exchange or retirement of a Foreign Currency Note will be equal to the United States dollar value of the foreign currency, determined at the time of the sale, exchange or retirement or, if the Foreign Currency Notes are traded on an established securities market, the spot rate of exchange on the settlement date, in the case of a cash basis United States Holder or an electing accrual basis United States Holder as described above.

Any gain or loss recognized by a United States Holder on a sale, exchange or other disposition of the foreign currency will be ordinary income or loss and generally will be United States source gain or loss.

#### *Disclosure Requirements*

United States Treasury Regulations meant to require the reporting of certain tax shelter transactions ("Reportable Transactions") could be interpreted to cover transactions generally not regarded as tax shelters, including certain foreign currency transactions. Under the Treasury Regulations, certain transactions may be characterized as Reportable Transactions including, in certain circumstances, a sale, exchange, retirement or other taxable disposition of a Foreign Currency Note or foreign currency received in respect of a Foreign Currency Note to the extent that such sale, exchange, retirement or other taxable disposition results in a tax loss in excess of a threshold amount. Persons considering the purchase of Foreign Currency Notes should consult with their own tax advisers to determine the tax return disclosure obligations, if any, with respect to an investment in a Foreign Currency Note, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).



### ***Dual Currency Notes***

If so specified in an applicable pricing supplement relating to a Foreign Currency Note, the Bank may have the option to make all payments of principal and interest scheduled after the exercise of such option in a currency (the “Optional Payment Currency”) other than the Specified Currency. Applicable United States Treasury Regulations generally (i) apply the principles contained in regulations governing contingent debt instruments to Dual Currency Notes in the “predominant currency” of the Dual Currency Notes and (ii) apply the rules discussed above with respect to Foreign Currency Notes with OID for the translation of interest and principal into United States dollars. The IRS states that these concepts are still under consideration. Persons considering the purchase of Dual Currency Notes should carefully examine the applicable pricing supplement and should consult their own tax advisors regarding the United States federal income tax consequences of the holding and disposition of such notes.

A United States Holder of a Dual Currency Note with respect to which the Bank’s option has been exercised may be considered to have exchanged a note denominated in the Specified Currency for a note denominated in the Optional Payment Currency. If the exercise of the option by the Bank is not treated as a deemed exchange, a United States Holder of a Dual Currency Note will not recognize gain or loss and the United States Holder’s basis in the note will be unchanged. If the exercise of the option is treated as a taxable exchange, a United States Holder will generally recognize gain or loss, if any, equal to the difference between the issue price of the note denominated in the Optional Payment Currency and the holder’s basis in the note denominated in the Specified Currency (although in certain circumstances, such exchange may qualify as a tax-free recapitalization).

### ***Indexed Notes and Any Notes Issued with Contingent Payments***

The tax treatment of a United States Holder of an Indexed Note or any other note providing for contingent payments will depend on factors including the specific index or indices used to determine indexed payments on the note and the amount and timing of any contingent payments of principal and interest. This summary does not discuss the tax treatment of contingent payment debt instruments. Persons considering the purchase of Indexed Notes, or any notes providing for contingent payments that do not constitute qualified stated interest, should carefully examine the applicable pricing supplement and should consult their own tax advisors regarding the United States federal income tax consequences of the holding and disposition of such notes.

### ***Information Reporting and Backup Withholding***

In general, information reporting requirements will apply to certain payments of principal, interest, OID and premium paid on notes and to the proceeds of sale of a note made to United States Holders other than certain exempt recipients (such as corporations). A backup withholding tax may apply to such payments if the United States Holder fails to provide a taxpayer identification number or certification of foreign or other exempt status or fails to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against such United States Holder’s United States federal income tax liability provided the required information is furnished to the IRS.

- **Argentine Taxation**

The following summary of the principal Argentine tax consequences arising from the acquisition, ownership and disposition of the notes issued by the Bank is based upon tax laws of Argentina and regulations thereunder as in effect on the date of this offering memorandum and is subject to any subsequent change in Argentine law and regulations that may come into effect after such date.

### ***Income and Withholding Taxes***

Except as described below, interest payments on the notes (including original issue discount, if any) will be exempt from Argentine income tax, if the notes are issued in accordance with the Negotiable Obligations Law, and qualify for tax-exempt treatment under Article 36 of such law. Under this Article, interest on the notes will be exempt if the following conditions (the “Article 36 Conditions”) are satisfied:

- (a) the notes must be placed through a public offering authorized by the CNV;
- (b) the proceeds of the placement must be used by the Bank for (i) working capital in Argentina, (ii) investments in tangible assets located in Argentina, (iii) refinancing of debts, (iv) contributions to the capital of a controlled or related corporation, provided the latter uses the proceeds of such contribution for the purposes specified in this section (b), or (v) making loans for any of the purposes described in this section (b); and
- (c) The Bank must provide evidence to the CNV, in the time and manner prescribed by regulation, as to use of the proceeds of the offering made hereby for any of the purposes described in paragraph (b) above.

If the Bank does not comply with the Article 36 Conditions, Article 38 of the Negotiable Obligations Law provides that the Bank shall be responsible for the payment that would have corresponded to the holders of any such Argentine taxes on interest received by the holders of the notes, calculated at the maximum rate established by Section 90 of the Income Tax Law (35%). The tax shall be paid with its respective interests as definitive and sole payment. In such event, such holders of notes shall receive the amount of interest provided in the relevant note as though no such tax had been required. The Bank intends to comply with the Article 36 Conditions.

Certain exceptions established by section 106 of the Fiscal Procedure Law should not be applicable for non-resident beneficiaries of interest paid for the possession of the Notes. Therefore, tax-exempt treatment under article 36 of the Negotiable Obligation Law will be applicable, regardless of whether this benefit increases the taxable amount in another country.

Decree No. 1,076 of July 2, 1992, as amended by Decree No. 1,157 of July 10, 1992, ratified by Argentine Law No. 24,307 of December 30, 1993 (“Decree No. 1,076”), eliminated the exemption described above with respect to certain Argentine entities. As a result of Decree No. 1,076, interest paid to holders that are subject to the tax adjustment for inflation rules pursuant to Title VI of the Argentine Income Tax Law (in general, entities organized or incorporated under Argentine law, local branches of foreign entities, sole proprietorships and individuals carrying on certain commercial activities), are subject to income tax at a rate of 35%. On the basis that the debtor is a bank the 35% rate established by Section 81 of the Argentine Income Tax Law should not be applicable. In this case, the regime established by AFIP General Resolution 830 is applicable. This Resolution provides for withholding of 3% or 10%, depending on whether the beneficiary shall or shall not be registered as an income tax taxpayer, respectively, for any interest amount, regardless of its denomination or means of payments, originated in operations performed in or throughout entities subject to the regime of Law 21526, as amended by Law 24627 (the “Argentine Financial Entities Law”). That withholding shall be considered as a payment on account of a bondholder and shall become due unless the beneficiary alleges the occurrence of any exemption event and provided that such events shall be evidenced by means of any of the formal requirements established by the tax authority. In short, if the beneficiary of such income is a taxpayer subject to the inflation adjustment rules of the Argentine Income Tax Law (as described above, generally Argentine entities), such income shall be reached by the Argentine Income Tax at the rate of 35% and therefore subject to withholding, in accordance with the above explained. Thus, the exemption is applicable only to: (i) individuals (including undivided estates) and (ii) foreign entities.

Pursuant to the terms of the notes, if any withholding on account of Argentine taxes is imposed on interest on the notes, the Bank shall be responsible for payment of such withholding taxes and such additional amounts so that the holders receive the amount of interest provided in the notes free from any such withholdings. See “Description of the Notes-Additional Amounts.” This provision does not apply with respect to holders that are domiciled, have residence or have a permanent establishment in Argentina through which they hold the notes, or to any other holder having a connection with Argentina other than the mere holding of the notes.

### ***Income Tax Capital Gain***

Provided the Article 36 Conditions are met, resident and non-resident individuals and non-Argentine entities, except for their permanent establishments in Argentina, are not subject to taxation on capital gains derived from the sale, exchange or other disposition of notes. However, even if Article 36 Conditions are not met, Decree No. 2,284, which was ratified by Law No. 24,307, states that foreign beneficiaries are not subject to the tax on capital gains derived from the sale or other disposition of notes. Further, in the case Article 36 Conditions are not

met, Section 20 w) of the Income Tax Law exempts any physical person and undivided estates that are residents of Argentina from the capital tax gain arising from the sale, exchange or any other disposition of negotiable obligations. Decree No. 1,076 has established that those taxpayers subject to the tax adjustment for inflation rules of the Argentine income tax law (as described above, generally Argentine entities) are subject to taxes on capital gains on the sale or other disposition of notes as prescribed by Argentine tax regulations.

### ***Value Added Tax***

All transactions and financial operations related to the issuance, placement, purchase, transfer, payment of principal of and/or interest on or redemption of any notes are exempt from Value Added Tax; *provided* that such notes shall have been placed by means of a public offering pursuant to Law No. 23,576. Additionally, the sale or transfer of the notes shall be exempt from this tax, in accordance with Section 7 b) of the Value Added Tax Law.

### ***Presumed Minimum Income Tax***

The Presumed Minimum Income Tax (the “PMIT”) is levied on the holding of certain income generating assets. Companies domiciled in Argentina, partnerships, foundations, sole proprietorships, trusts (with the exception of financial trusts set up in accordance with Sections 19 and 20 of Law 24441), certain mutual funds organized in Argentina, and permanent business establishments owned by foreign individuals, among other taxpayers, shall pay, or include in their tax report, a 1% tax rate (0.20% in the case of local financial entities) on the total value of *obligaciones negociables*, such as the notes, and other assets held by such persons, above an aggregate nominal amount of Ps.200,000 as of December 31 of the relevant fiscal year. In the case of *obligaciones negociables* listed on stock exchanges or public markets, the taxable value will be determined based on the latest quotation at the closing date of the relevant fiscal year. The income tax payment determined for a particular fiscal year is considered as a payment on account of the PMIT paid in the same fiscal year.

If after the deduction described in the previous paragraph there is unabsorbed excess of Argentine income tax, this excess will not generate a credit for the taxpayer, nor may PMIT be reimbursed or offset. If, on the contrary, the income tax that may be deducted on account of the PMIT were insufficient so that the PMIT would have to be paid in a given fiscal year—it will be possible to recognize the PMIT as a credit toward income tax owed in the immediately following 10 fiscal years.

### ***Personal Assets Tax***

Individuals domiciled and undivided estates located in Argentina or abroad must include securities, such as the notes, in order to determine their tax liability for purposes of the Personal Assets Tax (“PAT”) as of December 31 of the relevant fiscal year. There is a non-taxable amount of Ps.102,300 with respect to individuals and undivided estates located in Argentina. If the value of the assets determined according to PAT valuation exceeds Ps.102,300, this tax is levied on such excess either at the rate of 0.5% if the total asset value is no more than Ps.302,300, or at the rate of 0.75% if the total asset value is more than Ps.302,300. The applicable rate for taxpayers residing abroad is 0.75% in all cases unless the amount thereof is similar or below Ps.255.75. Although notes directly held by individuals domiciled and undivided estates located outside Argentina would technically be subject to the PAT, the PAT Law sets forth no method or procedure for the collection of such tax in respect of securities, including the notes, that are directly held by such individuals or undivided estates. The PAT is not applicable in respect of securities held by (i) legal entities domiciled in Argentina, and (ii) legal entities not domiciled in Argentina (a “foreign legal entity”) provided such foreign legal entity does not fall within the legal presumption described in the following paragraph.

The PAT establishes an irrefutable legal presumption that any securities issued by Argentine private issuers, which are directly owned (“*titularidad directa*”) by a foreign legal entity that (i) is located in a country which does not require shares or private securities to be held in registered form and (ii) pursuant to its legal nature or its By-laws established that (a) its principal business is investing outside its country of organization and/or (b) is not able to perform certain activities in its own country or make certain investments permitted pursuant to the laws of such country, are deemed to be owned by individuals domiciled in or undivided estates located in Argentina and, therefore, subject to the PAT. In such cases the law imposes the obligation to pay the PAT at an aggregate rate of 1.5% on the Argentine private issuer (the “Substitute Obligor”). The PAT Law also authorizes the Substitute

Obligor to seek recovery of the amount so paid, without limitation, by way of withholding or by foreclosing on the assets that gave rise to such payment.

The above legal presumption does not apply to the following foreign legal entities that directly own securities, such as the notes: (i) insurance companies, (ii) open-end investment funds, (iii) pension funds and (iv) banks or financial entities whose head office is located in a country whose central bank or equivalent authority has adopted the international standards of supervision established by the Basle Committee.

Notwithstanding the above, Decree No. 812/96 dated July 22, 1996 establishes that the legal presumption discussed above shall not apply to shares and debt-related private securities whose public offering has been authorized by the CNV and which are traded on the stock exchanges located in Argentina or abroad. In order to ensure that this legal presumption will not apply, and correspondingly, that the Argentine private issuer will not be liable as a Substitute Obligor the Argentine private issuer must keep in its records a duly certified copy of the CNV resolution authorizing the public offering of the shares or debt-related private securities and evidence verifying that such certificate of authorization was effective as of December 31 of the year in which the tax liability occurred as required by Resolution No. 4,203 of the DGI (the Argentine Tax Authority) dated July 30, 1996. The Bank intends to comply with these requirements.

### ***Tax on Debits and Credits on Banking Accounts***

Law 25,413, Law of Competitiveness, modified and regulated by law 25,453, established a tax on the debits and credits—of any nature—made in all current accounts opened up in banks, except for those specifically excluded by the law and its regulations. Debits and credits on current bank accounts are subject to a general tax rate of 0.6%. Nevertheless, section 7 of Decree 380/2001, as amended, established certain exceptions for financial entities such as the Bank. Under this rule, the credits and debits on the Bank's current accounts related to the notes issued by the Bank should not be subject to this tax.

The regulations of the Law of Competitiveness levies many other transactions in which a current bank account is not used but a financial entity intervenes. The movements and deliveries of funds—by its own or on behalf of third parties—carried out by any person, made through organized systems of payments replacing the use of the current bank accounts (art. 2 inc. b) I Annex Decree No. 380/2001) are also taxed at a rate of 1.2%.

Therefore, holders of the notes that have one or more Argentine bank checking accounts may be subject to this tax on the debits and credits to such checking accounts at the rate of 0.6%, or at the rate of 1.2% on other transactions that are used as a substitute for the use of such Argentine checking accounts.

Due to the amendments established by Decree 534/2004, holders of bank accounts taxed by the general rate of 0.6% will be able to compute as credit of taxes, 34% of the values settled by the agent of perception, originated in the values credited in these accounts.

Furthermore, the Decree 534/2004 establishes that individuals and companies that are subject to taxation in the events of Article 1, sections b) and c) of Law of Competitiveness reached by the tax rate of 1.2% will be able to compute as credit of taxes, 17% of the amounts paid.

The credit of such amounts as a payment on account will be carried out, indistinctly, against the Income Tax and/or PMIT. The exceeding amount will not be object of compensation with other taxes or transfer in favor of third parties, being able to be transferred, to its exhaustion, to other fiscal periods of the above-mentioned taxes.

### ***Turnover Tax***

The turnover tax is a local sales tax levied by the Argentine provinces and the city of Buenos Aires. The tax basis is the amount of gross receipts received from any business activity within the jurisdiction. They may have differences from province to province. The average tax rate in those provinces that do not exempt negotiable obligations is about 4%.

Income coming from any transaction relating to *obligaciones negociables* issued in line with the *Obligaciones Negociables* Law is exempted from turnover tax in the jurisdictions of the city of Buenos Aires and the province of Buenos Aires. However, in order to qualify for exemption in the province of Buenos Aires, the *obligaciones negociables* must comply with Article 36 conditions. Although the fiscal code of the City of Buenos Aires does not require the fulfillment of Article 35 conditions, the Local Tax Authority of such jurisdiction issued rule N 1494/05 fulfill the conditions required for income Tax purposes (Article 36 conditions).

### ***Stamp Taxes and Transfer Taxes***

No stamp taxes shall be payable in the city of Buenos Aires by holders of notes under Article 35 of the Negotiable Obligations Law No. 23,576. Further, in accordance with provisions of Law 874 of the City of Buenos Aires, stamp taxes in this jurisdiction apply only to real estate taxable transactions; ownership and sale of the notes will not be subject to stamp tax. No Argentine transfer taxes are applicable on the sale or transfer thereof.

Article 38 of the Negotiable Obligations Law No. 23,576 provides that if the issuer does not comply with the Article 36 Conditions, the issuer shall be responsible for the payment that would have corresponded to the holders of any Argentine taxes.

### ***Court Taxes***

In the event that it becomes necessary to institute enforcement proceedings in relation to *Obligaciones Negociables* in Argentina, a court tax (currently at a rate of 3.0%) will be imposed on the amount of any claim brought before the Argentine courts sitting in the City of Buenos Aires.

Furthermore, the City of Buenos Aires imposes a special contribution to the Lawyers Social Security System (“CASSABA Contribution”), in addition to the court tax of 3%, in any claim brought before the Argentine courts sitting in the City of Buenos Aires. The CASSABA Contribution will be equal to 3% of the amount of the court tax imposed as result of the claim.

### ***Public Offering and Tax Exemption***

On September 14, 2004, Joint Resolution No. 470-1738/2004 issued by the CNV and the Argentine Tax Authority (the “Joint Resolution”) was published in the Official Gazette.

The relevant points of the Joint Resolution are as follows:

- Whether a securities offering is a “public offering placement” is to be construed under Argentine law (Section 16 of Law 17,811).
- Public offering efforts should be properly carried out and documentation of such offering efforts should be kept by the issuer. The notes will not be considered tax exempt by virtue of the mere authorization by the CNV of a public offering.
- Public offerings may be made not only in Argentina but also abroad as a complement to local public offerings.
- Offerings may be made to the “general public” or to a “specified group of investors” (such as qualified institutional buyers).
- The offering may be underwritten pursuant to an “underwriting agreement”. The notes placed pursuant to such agreement will be considered placed by means of a public offering to the extent that the underwriter effectively carries out public offering efforts in accordance with Argentine law.
- THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF NEGOTIABLE OBLIGATIONS. HOLDERS AND PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES IN THEIR PARTICULAR SITUATION.

## **INDEPENDENT ACCOUNTANTS**

The Bank's financial statements as of December 31, 2005 and 2004 and for each year in the three-year period then ended have been audited by Price Waterhouse & Co. S.R.L., independent accountants. The independent auditor's report includes an explanatory paragraph related to the Bank's public sector exposure. See "Report of Independent Auditors" in our 2005 audited financial statements.

## **LEGAL MATTERS**

The validity of the creation of the program and the issuance of each Series of Notes thereunder and certain matters in connection with Argentine law will be passed upon by Zang Bergel & Viñes, Argentine counsel to the Bank, and Bruchou, Fernández Madero, Lombardi & Mitrani, Argentine counsel to the dealers. Saúl Zang, a director of the Bank and Ernesto Manuel Viñes, director and general counsel of the Bank, are each partners of Zang, Bergel & Viñes. In addition, Mr. Saul Zang is vice-president of IRSA Inversiones y Representaciones S.A, one of our principal shareholders. Certain legal matters in connection with U.S. federal securities laws and the laws of the State of New York will be passed upon for the Bank by Simpson Thacher & Bartlett LLP, New York, New York, counsel to the Bank and for the dealers by Shearman & Sterling LLP, New York, New York, counsel to the dealers. Simpson Thacher & Bartlett LLP will rely on the opinion of Zang Bergel & Viñes with respect to all matters of Argentine law, unless otherwise stated in the relevant pricing supplement.

## GENERAL INFORMATION

1. The notes represented by the Regulation S Global Note have been accepted for clearance through Euroclear and Clearstream. The Common Code for each Series of Notes, together with the relevant ISIN number, will be contained in the pricing supplement relating thereto. In addition, the Bank will make an application with respect to each Series of Notes sold pursuant to Rule 144A for such notes to be accepted for trading in book-entry form by DTC. Acceptance of each Series will be confirmed in the pricing supplement relating thereto. The notes have been designated for trading in the PORTAL System of the National Association of Securities dealers, Inc. The CINS and CUSIP numbers, if any, for each Series will be contained in the pricing supplement relating thereto.

2. The Bank has obtained all necessary consents, approvals and authorizations in Argentina in connection with the establishment of the program. The establishment of the program was authorized at a meeting of shareholders of the Bank held on October 24, 1997 and by resolution of our board of directors approved on November 18, 1997. On December 11, 1998 and on December 14, 1998 our shareholders and board of directors, respectively, passed a resolution authorizing an increase in the principal amount of notes that may be issued under the program from US\$1,000,000,000 to US\$2,000,000,000. A shareholders meeting held on July 18, 2002 and amended by the shareholders resolution dated April 30, 2003, ratified the program authorizing the issuance of secured and unsecured notes under the program. By resolution of our board of directors dated July 24, 2003, the maximum principal amount of notes issuable under the program was reduced from US\$2,000,000,000 to US\$1,200,000,000. This offering memorandum was approved by Board resolution dated July 25, 2005. The CNV authorized the public offer of the program in Argentina by Resolution 14,546 dated June 26, 2003.

3. The Luxembourg Stock Exchange has allocated Number 12860 to the program for listing purposes.

4. The Bank is not involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the notes.

5. Copies in English of our latest annual report and accounts and our latest quarterly accounts may be obtained, and copies of the Indenture will be available for inspection, at the specified offices of each of the Paying Agents and the Transfer Agents during normal business hours, so long as any notes are outstanding or may be issued under the program, unless otherwise stated in the relevant pricing supplement. In addition, copy of this offering memorandum, any supplements thereto and any pricing supplement related to the series to be issued there under, may be obtained in the CNV's website ([www.cnv.gov.ar](http://www.cnv.gov.ar)) and the indicated office of the Luxembourg Paying Agent during normal business hours, so long as any notes are outstanding or may be issued under the program, unless otherwise stated.

## FORM OF PRICING SUPPLEMENT

The pricing supplement that will be issued in respect of each tranche may include some or all of the following provisions to the extent relevant in the context of the particular tranche:

PRICING SUPPLEMENT DATED [ ]  
TO THE OFFERING MEMORANDUM DATED [ ]  
[AS SUPPLEMENTED BY THE OFFERING MEMORANDUM SUPPLEMENT DATED ]

**Banco Hipotecario S.A.**  
**US\$1,200,000,000**  
**Global Medium Term Note Program**

1. Series No:
2. Aggregate Principal Amount:
3. Issue Price:
4. Issue Date:
5. Authorized Denomination(s):
6. Specified Currency:
7. Specified Principal Payment Currency:
8. Specified Interest Payment Currency:
9. Maturity Date; Fixed Interest Rate and Zero Coupon:
10. Redemption Month; Variable Interest Rate:
11. Interest Basis: [Fixed Interest Rate, Variable Interest Rate, Zero Coupon]
12. Interest Commencement Date (if different from the Issue Date):
13. Fixed Interest Rate:
  - (a) Calculation Amount:
  - (b) Interest Rate: [ ] % per annum
  - (c) Interest Payment Date(s):
  - (d) Initial Broken Amount: [Amount per currency and denominations]
  - (e) Final Broken Amount: [Amount per currency and denominations]
  - (f) Fixed Rate Day Count Fraction(s) if not 30/360 basis:
14. Variable Interest Rate:
  - (a) Calculation Amount:
  - (b) Business Day Convention: [FRN Convention (to be used only if Specified Interest Period is expressed in months)/Modified Following Business Day Convention/Following Business Day Convention/Other (specify)]
  - (c) Specified Interest Period:
  - (d) Interest Payment Dates: [Specify if different from Normal Convention]
  - (e) Benchmark and Reference Rate(s): [Specify, including whether Bid, Offer or Mean]
  - (f) Primary Source for Interest Rate Quotations [Relevant Screen Page/Reference Banks] for Reference Rate(s):
  - (g) Specified Screen Page:
  - (h) Reference Banks:
  - (i) Calculation Agent:
  - (j) Interest Determination Date:
15. Basis of Calculation of Variable Interest Rate and Interest Payment Dates and default interest:
16. Other Variable Interest Rate Terms:
  - (a) Minimum Interest Rate
  - (b) Maximum Interest Rate
  - (c) Spread: [+/- [ ] per annum]
  - (d) Spread Multiplier:
  - (e) Variable Rate Day Count Fractions(s) if not actual/360:
  - (f) Relevant Banking Center



17. Zero Coupon
  - (a) Amortization Yield:
  - (b) Reference Price
  - (c) Basis [Straightline/Compounded at [specify] intervals]
  - (d) Fixed Rate Day Count
 Fraction(s) if not 30/360 basis:
18. Relevant Business Day [Specify other financial center(s)]
19. Relevant Financial Center: [Specify other financial center(s)]
20. Redemption amount or the Basis of Calculation of the Variable Redemption Amount:
21. Redemption at the Option of the Bank [Yes/No]
  - (a) Notice Period [Specify maximum and minimum number of days for deposit period]
  - (b) Amount: [All or less than all and, if less than all, minimum amounts]
  - (c) Date(s):
  - (d) Call Redemption Amount
22. Redemption at the Option of the Noteholders: [Yes/No]
  - (a) Deposit Period [Specify maximum and minimum number of days for deposit period]
  - (b) Amount: [All or less than all and, if less than all, minimum amounts]
  - (c) Date(s):
  - (d) Put Redemption Amount:
  - (e) Withdrawal of Notes:
23. Alternative Payment Mechanism:
24. Unmatured Coupons Void: [Yes/No]
25. Talons:
  - (a) Talons for Future Coupons to be attached to Definitive Notes: [Yes/No]
  - (b) Reference Date(s) or Interest Payment Date(s) on which the Talons (if any) mature:
26. Early Redemption Amount (including accrued interest, if any):
27. Additional Provisions relating to the Notes:

#### Other Relevant Terms

1. Listing (if yes; specify Stock Exchange):
2. Syndicated: [Yes/No]
3. If Syndicated:
  - (a) Lead Manager:
  - (b) Stabilizing Manager:
4. Commissions and Concessions:
5. Codes:
  - (a) Common Code:
  - (b) ISIN:
  - (c) CUSIP:
  - (d) CINS:
  - (e) Other:
6. Identity of Dealer(s)/Manager(s):
7. Provisions for Registered Notes
  - (a) DTC Unrestricted Global Note: [Yes/No]
  - (b) DTC Unrestricted Global Note: [Yes/No]
8. Use of Proceeds:

## GLOSSARY OF SELECTED DEFINED TERMS

	<b>Page(s)</b>
accrued OID .....	211
Acquiror .....	206
Additional Amounts .....	180
Amortized Face Amount .....	179
Argentine Financial Entities Law .....	217
Argentine Taxes .....	180
Article 36 Conditions .....	216
Bank Branch Network .....	72
BASE .....	147
Central Bank .....	8
Central Bank regulations .....	201
Certificated Notes .....	166
Clearstream .....	2
CNV .....	2
Code .....	210
Control Acquisitions .....	206
Co-Registrar .....	164
<i>cuentas de corresponsalia</i> .....	140
Demand Registration Right .....	201
denomination currency .....	190
DTC Participant .....	167
Dual Currency Notes .....	12
Euroclear .....	2
Event of Default .....	185
Exchange Act .....	7
FACPE .....	8
FGD .....	145
Financial Institutions Law .....	127
Financial Superintendency .....	128
Fixed Rate Note .....	164
Fixed Rate of Interest .....	172
Floating Rate Note .....	164
Foreign Currency Note .....	213
Foreign Currency Notes .....	12
Global Note .....	166
Higher Redemption Amount .....	179
IBNR .....	150
INDEC .....	8
Indenture .....	13, 166
INDER .....	152
Indexed Notes .....	12
Initial Interest Rate .....	173
institutional accredited investors .....	1
Insurance Companies Law .....	149
Interest Commencement Date .....	172
Interest Determination Dates .....	173
Interest Payment Date .....	165
Interest Rate Basis .....	173
Interest Reset Date .....	173
Interest Reset Period .....	173
Interested Shareholder .....	207
International Global Note .....	166
Issue Date .....	165
Issue Price .....	165
judgment currency .....	190
Law 24,587 .....	2
Lead Manager .....	192
LIBOR Interest Determination Date .....	173
LIBOR Note .....	172
MAE .....	1
Management Plan .....	120

Market Exchange Rate .....	178
Maximum Rate.....	172
Minimum Price .....	206
Minimum Rate .....	172
Minimum Redemption Amount .....	179
Mortgage Instruments .....	156
Negotiable Obligations Law.....	2, 193
New Bankruptcy Law .....	157
OID .....	211
Optional Payment Currency .....	216
Optional Redemption Amount .....	179
Optional Redemption Date.....	179
Original Issue Discount Notes.....	211
partial defeasance.....	189
Paying Agents .....	164
PPP.....	115
Program Agreement .....	192
Proposed Agreement .....	206
RBNR .....	150
Real Estate Report.....	156
Redemption Amount .....	178
Register .....	166
Registered Notes .....	2
Registrable Securities.....	201
Registrar.....	164
Regulation S.....	2
Regulation S Global Note .....	2, 167
Regulation S Transfer Certificate.....	167
Regulations .....	201
Related Party Transaction .....	207
Representative Amount.....	175
restricted global note .....	2
Restricted Global Note .....	167
Restructuring Plan.....	147
Reuters Screen LIBOR Page.....	174
Rule 144A Transfer Certificate .....	167
SEC.....	7
Section 6 Debtors .....	163
Securities Act.....	1
SEDESA .....	146
Series.....	13
Short-Term Notes.....	212
SIGEN.....	119
Significant Acquisition.....	201
Significant Acquisitions .....	137
Specified Currency.....	164
Spread .....	172
Stated Maturity.....	164
Substitute Obligor .....	218
Successor Person.....	183
Syndics.....	118
Telerate Page.....	174
Treasury Bills.....	175
Treasury Interest Determination Date .....	173
Treasury Rate .....	175
Treasury Rate Note .....	172
Trustee .....	164
United States Holder .....	210
US global note.....	166
Zero Coupon Note.....	164

[THIS PAGE IS INTENTIONALLY LEFT BLANK]

**BANCO HIPOTECARIO S.A.**  
**INDEX TO THE FINANCIAL STATEMENTS**

**Consolidated Audited Financial Statements**

**As of and for the year ended December 31, 2004 and 2005**

Report of the Independent Accountants	F-2
Consolidated Balance Sheets as of December 31, 2004 and 2005	F-4
Consolidated Statements of Income for each of the three years in the period ended December 31, 2005	F-6
Consolidated Statements of Changes in Shareholders' Equity for each of the three years in the period ended December 31, 2005	F-8
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2005	F-9
Notes to the Consolidated Financial Statements	F-10

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of  
Banco Hipotecario S.A.

We have audited the consolidated balance sheets of Banco Hipotecario S.A. and subsidiaries (collectively referred to as the "Bank") as of December 31, 2005 and 2004 and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for the each of the three years in the period ended December 31, 2005. These consolidated financial statements and notes are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Argentina and performed the auditing procedures required by the *Banco Central de la República Argentina* (the "Argentine Central Bank"). Those standards require that we plan and perform an audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As mentioned in Note 1 and 5, the accompanying consolidated financial statements have been prepared in accordance with accounting rules prescribed by the Argentine Central Bank, which differ in certain respects from, and is a comprehensive basis of accounting other than, Argentine generally accepted accounting principles applicable to enterprises in general.

Certain information and disclosure, normally included in the financial statements prepared in accordance with the rules established by the Argentine Central Bank have been modified or omitted including the cash flow which has been presented as supplemental information.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco Hipotecario S.A. and subsidiaries as of December 31, 2005 and 2004, and the results of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting rules prescribed by the Argentine Central Bank.

These financial statements, taken as a whole, should be read considering the Bank's level of exposure to the non-financial public sector, as described in Note 4.

Price Waterhouse & Co S.R.L.

**Mirta S. Maletta**  
**Partner**

Buenos Aires, Argentina  
February 20, 2006

**BANCO HIPOTECARIO S.A.**  
**CONSOLIDATED BALANCE SHEETS**  
**As of December 31, 2005 and 2004**

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	December 31,	
	2005	2004
<b>ASSETS</b>		
Cash and due from banks		
Cash .....	Ps. 58,553	Ps. 62,351
Banks and correspondents.....	236,260	279,411
	294,813	341,762
Government and corporate securities (Note 9).....	2,219,553	855,124
Loans (Note 11)		
Mortgage loans.....	1,536,972	1,632,989
Other loans.....	748,287	931,107
	2,285,259	2,564,096
Plus: Accrued interest receivable.....	94,476	291,698
Less: Reserve for loan losses (Note 12).....	(172,743)	(287,527)
	2,206,992	2,568,267
Other receivables from financial transactions (Note 13)		
Amounts receivable under derivative financial instruments.....	922,990	1,017,940
Collateral receivable under repurchase agreements	559,216	-
Loans in trust pending securitization .....	112,127	255,622
Amounts receivable under reverse repurchase agreements of government and corporate securities.....	-	8,917
Receivable for Argentine Government Compensating and Hedge Bonds (Note 5).....	637,031	2,689,738
Miscellaneous (Note 13).....	622,458	662,721
	2,853,822	4,634,938
Plus: Accrued interest receivable.....	12,212	14,396
Less: Reserve for loan losses (Note 12).....	(33,175)	(47,305)
	2,832,859	4,602,029
Investments in other companies.....	5,949	8,304
Miscellaneous receivables, net (Note 14).....	478,829	632,810
Bank premises and equipment, net (Note 15).....	88,574	92,037
Miscellaneous assets, net (Note 16).....	24,633	23,797
Intangible assets, net (Note 15).....	8,465	8,139
In-process items.....	19	2,606
	19	2,606
<b>Total Assets</b> .....	Ps. 8,160,686	Ps. 9,134,875

The accompanying notes are an integral part of these consolidated financial statements.



**BANCO HIPOTECARIO S.A.**  
**CONSOLIDATED BALANCE SHEETS – (Continued)**  
**As of December 31, 2005 and 2004**

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	December 31	
	2005	2004
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits		
Checking accounts.....	Ps. 21,148	Ps. 20,876
Saving accounts.....	126,094	73,875
Time deposits.....	358,181	117,964
Other deposit accounts.....	19,198	16,634
	524,621	229,349
Plus: Accrued interest payable.....	3,067	1,025
	527,688	230,374
Other liabilities from financial transactions		
Other banks and international entities (Note 19).....	360,229	509,665
Bonds (Note 20).....	2,679,612	2,717,257
Argentine Central Bank (Note 18).....	500,375	2,228,182
Amounts payable under derivative financial instruments.....	927,989	927,989
Borrowings under repurchase agreements collateralized by government securities.....	384,243	-
Obligation to return collateral acquired under reverse repurchase agreements of government and private securities.....	-	9,933
Collections and other transactions on behalf of third parties.....	102,159	27,184
Miscellaneous.....	69,111	89,195
	5,039,047	6,509,405
Plus: Accrued interest payable.....	76,330	60,593
	5,115,377	6,569,998
Miscellaneous liabilities		
Accrued taxes.....	7,029	16,231
Sundry creditors (Note 23).....	41,708	37,595
Other (Note 23).....	7,510	8,473
	56,247	62,299
Reserve for contingencies (Note 17).....	209,740	275,781
In-process items.....	2,542	5,688
Minority interests.....	31,977	31,575
	31,977	31,575
<b>Total Liabilities.....</b>	<b>5,943,571</b>	<b>7,175,715</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock.....	1,500,000	1,500,000
Inflation adjustment of common stock.....	1,797,623	1,797,623
Paid-in-capital.....	1	1
Reserves.....	1,191,686	1,191,686
Accumulated deficit.....	(2,272,195)	(2,530,150)
<b>Total Shareholders' Equity.....</b>	<b>2,217,115</b>	<b>1,959,160</b>
<b>Total Liabilities and Shareholders' Equity.....</b>	<b>Ps. 8,160,686</b>	<b>Ps. 9,134,875</b>

The accompanying notes are an integral part of these consolidated financial statements.

**BANCO HIPOTECARIO S.A.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**For the three-year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Financial income			
Interest on loans and other receivables from financial transactions .....	Ps. 500,201	Ps. 526,458	Ps. 457,060
Income from government securities and temporary investments, net.....	233,698	194,330	68,774
Income from restructuring of bonds.....	-	-	231,998
Income from restructuring of financial loans.....	-	-	254,404
Other.....	2,314	619	614
	736,213	721,407	1,012,850
Financial expenses			
Interest on deposits and other liabilities from financial transactions.....	442,489	274,923	635,220
Contributions and taxes on financial income.....	12,583	14,837	4,007
	455,072	289,760	639,227
Provision for losses on loans (Note 12).....	19,871	17,502	33,359
Income from services			
Insurance premiums.....	48,004	43,438	48,271
Commissions (Note 24).....	14,121	30,469	7,381
Other (Note 24).....	24,928	11,512	13,985
	87,053	85,419	69,637
Expenses on services			
Insurance claims.....	8,268	7,859	8,603
Commissions (Note 24).....	18,468	12,990	19,752
Contributions and taxes on income from services.....	1,241	1,517	498
	27,977	22,366	28,853
Monetary loss from financial transactions.....	-	-	(10,105)
Administrative expenses			
Salaries and social security contributions.....	71,079	70,040	64,217
Advertising expenses.....	10,312	4,764	1,457
Value added tax and other taxes.....	11,372	10,322	8,274
Directors' and Syndics' fees.....	2,853	2,231	7,253
Fees for administrative services.....	15,650	9,432	9,055
Maintenance and repairs.....	3,921	4,259	3,297
Electricity and communications.....	6,602	5,008	4,811
Depreciation of bank premises and equipment	7,491	7,798	11,925
Other.....	26,060	20,162	24,686
	155,340	134,016	134,975
Monetary (loss) gain related to operating transactions.....	-	-	42
Net income (loss) from financial transactions .....	Ps. 165,006	Ps. 343,182	Ps. 236,010

The accompanying notes are an integral part of these consolidated financial statements.

**BANCO HIPOTECARIO S.A.**  
**CONSOLIDATED STATEMENTS OF INCOME – (Continued)**  
**For the three-year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Miscellaneous income			
Penalty interest.....	7,629	9,444	15,026
Loan loss recoveries.....	83,884	53,019	52,330
Reversal of reserve for loan losses.....	22,850	245	
Gain on debt restructuring .....	-	-	88,016
Other.....	8,440	6,861	91,584
	<u>122,803</u>	<u>69,569</u>	<u>246,956</u>
Miscellaneous expenses			
Provision for lawsuits contingencies	-	7,863	43,858
Provision for insurance contingencies	745	740	-
Provision for administrative reorganization	20,800	87,087	158,285
Provision for other contingencies and miscellaneous receivables	-	7,877	2,825
Others (Note 25).....	11,702	20,137	22,861
	<u>33,247</u>	<u>123,704</u>	<u>227,829</u>
Monetary gain on other transactions.....	-	-	26
Income (loss) before income taxes, minority interests and income from absorption ad-referendum of the Bank Shareholders' Meeting .....	<u>254,562</u>	<u>289,047</u>	<u>255,163</u>
Income taxes (Note 27).....	642	8,831	1,700
Minority interests.....	(613)	(1,073)	931
Net income (loss).....	<u><u>253,307</u></u>	<u><u>279,143</u></u>	<u><u>254,394</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**BANCO HIPOTECARIO S.A.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the three-year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

	Common stock (Note 29)	Paid in capital	Inflation adjustment of common stock (Note 29)	Reserves	Voluntary (Note 29)	Accumulated deficit	Total shareholders' equity
				Legal (Note 29)			
<b>Balance as of December 31, 2002</b> .....	Ps. 1,500,000	Ps. 1	Ps. 1,797,623	Ps. 1,022,078	Ps. 169,608	Ps. (3,063,687)	Ps. 1,425,623
Net income for the year	-	-	-	-	-	254,394	254,394
<b>Balance as of December 31, 2003</b> .....	Ps. 1,500,000	Ps. 1	Ps. 1,797,623	Ps. 1,022,078	Ps. 169,608	Ps. (2,809,293)	Ps. 1,680,017
Net income for the year	-	-	-	-	-	279,143	279,143
<b>Balance as of December 31, 2004</b> .....	Ps. 1,500,000	Ps. 1	Ps. 1,797,623	Ps. 1,022,078	Ps. 169,608	Ps. (2,530,150)	Ps. 1,959,160
Prior year adjustment	-	-	-	-	-	4,648	4,648
Net income for the year	-	-	-	-	-	253,307	253,307
<b>Balance as of December 31, 2005</b> .....	Ps. 1,500,000	Ps. 1	Ps. 1,797,623	Ps. 1,022,078	Ps. 169,608	Ps. (2,272,195)	Ps. 2,217,115

**The accompanying notes are an integral part of these consolidated financial statements**

**BANCO HIPOTECARIO S.A.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**For the three years ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

	<u>2005</u>		<u>2004</u>		<u>2003</u>	
<b>Cash flows from operating activities:</b>						
Net income (loss).....	Ps.	253,307	Ps.	279,143	Ps.	254,394
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Monetary adjustment.....		-		-		9,148
Provision for losses on loans and for contingencies.....						
and miscellaneous receivables, net of reversals.....		41,416		120,871		242,128
Net (gain) loss on available for sale investments.....		(38,862)		(23,932)		119,229
Depreciation and amortization.....		10,377		9,338		20,000
Net loss on sale of premises and equipment and miscellaneous assets.....		-		6,683		240
Net indexing (CER and CVS) of loans, deposit and other debt....		275,551		(70,543)		(35,275)
Interest and indexing (CER) of borrowings from Central Bank....		155,462		145,019		101,017
Minority interest.....		613		-		-
Net change in trading investments.....		46,047		(65,555)		29,865
Net change in other assets and liabilities.....		210,976		(920,016)		(545,205)
<b>Net cash provided by (used in) operating activities.....</b>		<b><u>954,887</u></b>		<b><u>(518,992)</u></b>		<b><u>195,541</u></b>
<b>Cash flows from investing activities:</b>						
Decrease (increase) in loans, net.....		24,850		(86,306)		441,429
Proceeds from securitization of loans.....		169,299		135,954		138,860
Suscription of Argentine Government Hedge Bond.....		(1,774,758)		-		-
Purchase of available for sale government securities.....		-		(418,525)		(729,260)
Proceeds from available for sale government securities.....		-		995,262		621,658
Proceeds from maturities of available for sale investments.....		475,242		5,792		250
(Increase) decrease in investments in other companies.....		-		(5,529)		(178)
Purchases of premises and equipment, miscellaneous and intangible assets.....		(10,096)		(19,694)		(5,098)
Proceeds from sale of premises and equipment.....		5,478		14,357		3,455
<b>Net cash (used in) provided by investing activities.....</b>		<b><u>(1,109,985)</u></b>		<b><u>621,311</u></b>		<b><u>471,116</u></b>
<b>Cash flows from financing activities:</b>						
Increase (decrease) in deposits, net.....		295,272		101,531		9,148
Proceeds from issuance of bonds, notes, and other long-term debts.		454,725		-		-
Proceeds from borrowings from Banks.....		242,520		-		-
Principal payments on bonds, notes, and other debts.....		(576,623)		(499,502)		(384,384)
Increase in borrowings, net.....		(307,745)		223,139		-
<b>Net cash provide by (used in) financing activities.....</b>		<b><u>108,149</u></b>		<b><u>(174,832)</u></b>		<b><u>(375,236)</u></b>
Net increase (decrease) in cash and cash equivalents.....		(46,949)		(72,513)		291,421
Cash and cash equivalents at the beginning of the year.....		341,762		414,275		122,854
<b>Cash and cash equivalents at the end of the year.....</b>	Ps.	<b><u><u>294,813</u></u></b>	Ps.	<b><u><u>341,762</u></u></b>	Ps.	<b><u><u>414,275</u></u></b>
Supplemental disclosure of cash flow information:						
Cash paid for interest.....	Ps.	81,868	Ps.	293,769	Ps.	322,462
Cash paid for income taxes.....		-		2,055		939

**The accompanying notes are an integral part of these consolidated financial statements.**

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three-year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

**1. General**

*a. Description of business*

Banco Hipotecario SA (herein after referred to as the “Bank” or “BHSA”), is a commercial bank, organized under the laws of Argentina. The Bank provides general banking services, focused on individual residential mortgage loans and construction-project loans directly to customers as well as indirectly through selected banks and other financial intermediaries throughout Argentina. The Bank also engages in mortgage loan securitizations, mortgage loan servicing, credit card, personal loans, other corporate loans and mortgage-related insurance in connection with its lending activities.

*b. Basis of presentation*

The consolidated financial statements of the Bank have been prepared in accordance with the policies of Banco Central de la República Argentina (“Argentine Central Bank” or “BCRA”) which prescribes the accounting reporting and disclosure requirements for banks and financial institutions in Argentina (“Argentine banking GAAP”). These rules differ in certain respects from generally accepted accounting principles in Argentina (“Argentine GAAP”) applicable to companies in general. The significant differences between Argentine Banking GAAP and Argentine GAAP are described in Note 7 to the consolidated financial statements. Argentine Banking GAAP and Argentine GAAP also differ in certain significant respects from generally accepted accounting principles in the United States of America (“US GAAP”). Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by US GAAP and regulations of the Securities and Exchange Commission (“SEC”).

Certain disclosures required by the Argentine Banking GAAP have not been presented herein since they are not considered to be material or have been modified or omitted to the accompanying consolidated financial statements taken as a whole, including the cash flow which has been presented as supplemental information.

*c. Principles of consolidation*

The consolidated financial statements include the accounts of the Bank and its subsidiaries over which the Bank has effective control. All significant intercompany transactions have been eliminated in consolidation.

*d. Presentation of financial statements in constant Argentine pesos*

For the period from January 1, 1995 to December 31, 2001, the Bank accounted for its financial transactions on the historical cost basis. Prior to January 1, 1995, the Bank’s consolidated financial statements were prepared on the basis of general price-level accounting, which reflected changes in the purchasing power of the Argentine peso in the historical financial statements. However, as a result of the inflationary environment in Argentina during 2002 Argentine Central Bank Communication “A” 3702, Resolution No.240/02 of the Argentine Federation of Professional Councils in Economic Sciences (FACPCE) and Resolution No.415/02 from the “Comisión Nacional de Valores de la República Argentina” (CNV) reinstated the application of inflation accounting in financial statements as from January 1, 2002. These resolutions provided that all recorded amounts restated for inflation through

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

August 31, 1995, as well as those arising between that date and December 31, 2001 are to be considered stated in currency as of December 31, 2001.

However, the Argentine government instructed the CNV to issue the necessary regulations to preclude public companies from presenting price-level restated financial statements. Therefore, on April 8, 2003, the CNV issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. The Bank complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were also restated until that date, using a conversion factor of 1.0074.

## **2. Economic and social situation prevailing in Argentina**

Since 2003, a remarkable improvement has been recorded by the Argentine economy, which put an end to the economic recession that had started in the second half of 1998, and worsened at the end of 2001 and the first half of 2002. Said improvement was evidenced by a strong economic recovery, which was caused by a continuous increase in the Gross Domestic Product, reduction of interest rates and stabilization of the foreign exchange market. The financial system has gradually recovered its liquidity levels, recording an increase in deposits and in all types of borrowing. At the same time, levels of financial brokerage activities increased, the exposure to the Public Sector decreased and the reduction of BCRA liabilities speeded up.

In March, 2005, Argentina announced the final outcome of its global offer to exchange certain public debt instruments (the "Eligible Securities"), payment of which has been deferred, for an aggregate eligible amount of approximately US\$ 81,800 million (representing the face value and past due and unpaid interest) for a total of eleven series of Par Bonds, Quasi Par Bonds and Discount Bonds and five series of GDP-linked units. Eligible bondholders holding approximately 76.15% of the amount subject to restructuring, equivalent to approximately US\$ 62,300 million (representing around US\$ 62,500 million, which are equivalent to a nominal amount not yet redeemed) participated in the debt swap. Said process ended in June, 2005, with the delivery the new of debt securities.

On August 4, 2005 the National Government made a payment of approximately US\$ 1,580 million in repayment of capital of BODEN 2012, the main security created after the cessation of payments declared in December 2001.

On January 3, 2006, the National Government fully paid its debt with the International Monetary Fund, amounting to approximately US\$ 9,500 million.

On January 6, 2002, the Government enacted Law 25561 (Law on public emergency and exchange system reform) that involved profound changes to the prevailing economic model and the amendment of the Convertibility Law in force since March 1991. Subsequently, the Government announced new economic policies, which were implemented through various legal regulations that significantly affected the banking business and the exchange system.

Listed below are some of the main measures adopted by the National Government, which impacted banking operations and, particularly, the Bank: i) a single free exchange market system was established, ii) Deposits and Loans in US dollars or any other foreign currency granted by the Argentine financial system were converted into pesos, iii) compensations to the Financial System for the effects of the

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

asymmetric pesification process, iv) certain adjustments to the Reorganization and Bankruptcy Laws and v) conversion of provincial public debt.

*Treatment of assistance granted by the BCRA*

Executive Branch Decree 739/03 and BCRA Communication "A" 3941 established that financial institutions which so request it shall repay the rediscount and advance balances in force at the date of that Decree and granted within the framework of Section 17 of Law 24144 and its amendments, in no more than 70 installments.

Subsequently, the Executive Branch issued Decree 1262/03 establishing that the conditions for the amortization of rediscounts may be modified, and extended the maximum number of installments up to one hundred and twenty (120) installments, each of which shall be equivalent to a percentage not lower than 0.40% of the adjusted principal amount.

On September 11, 2003, reformulated on February 4, 2004, the Bank submitted to the BCRA a schedule for the repayment of its debt for rediscounts received from the BCRA, as prescribed by Section 3 of Decree No. 1262/03, as well as a transformation and reorganization plan to strengthen the Bank's efficiency and profitability.

This schedule has been prepared on the basis of the balances of rediscounts and advances granted by the BCRA at March 28, 2003, which at that date amounted to Ps. 391,101, delivering as collateral for the assistance granted secured loans which, considered at their technical value, maintain a margin not lower than 125%. In that submission, the Bank contemplates the settlement of its debt over a maximum term of 89 months counted from March 31, 2004.

Through Resolution No. 3 dated February 5, 2004, the Unit for the Restructuring of the Financial System authorized the BCRA to modify the conditions for the amortization of the assistance established in Section 9, subset. b) of Decree 739/03, which was adapted by the Bank according to the schedule mentioned in the preceding paragraph.

Through Communication "A" 4268, the BCRA established that financial institutions carrying debts for assistance loans received under article 17 of the BCRA Charter, which have been financed as envisaged in Decrees Nos. 739/03 and 1262/03, may make advance payments until that credit assistance has been fully repaid.

Through Resolution No. 308 dated November 4, 2004, the Board of Directors of the BCRA established that Banco Hipotecario SA should repay the assistance loan granted by the Governing Entity prior to any foreign debt purchase or repayment.

In this regard, on November 11 and December 1, 2004, the Bank made early settlements of the financial assistance loan granted by the BCRA in the amounts of Ps. 10,000 and Ps. 30,000, respectively, in order to settle in advance its restructured foreign debt.

On January 20 and February 25, 2005, the Bank took part in the tender offer established by the BCRA in accordance with the guidelines of Communications "A" 4268 and 4282, the amount of Ps. 63,759 and Ps. 19,924, respectively having been accepted in settlement of the previously refinanced debt.



**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

On May 3, 2005, the Bank repaid in advance all the assistance loans granted by the BCRA, as envisaged in Decrees N° 739/03 and 1262/03. The total amount paid was Ps. 233,487, including principal, CER and interest.

*Situation of the Bank*

The Public Emergency and Foreign Exchange reform Law No. 25561 had significant impact on the Bank. The Bank's assets that were originally denominated in foreign currency were "pesofied" Ps. 4,506.7 million (83.4% of total assets denominated in foreign currency), whereas only 20.2% (or Ps. 892.9 million) of its total liabilities were pesofied. The principal US dollar or foreign currency equivalent assets including in the "pesofied" process were: i) post restructuring individual and construction mortgage loans, ii) Public sector loans, iii) Financial sector loans, iv) loans in trust pending securitization, v) certain Argentine government bonds, and vi) Certificates of participation and bonds in mortgage trusts. The interest rates on virtually all the Bank's "pesofied" assets and liabilities were indexed to either CVS or CER.

This crisis has severely impacted the Bank's liquidity to the extent that cash from operations has proved to be insufficient to cover both its operating costs and its debt service. Given the effects of the Argentine economic conditions the Bank was unable to meet its foreign currency obligations as they became due.

The "pesification" of the Bank's assets created a substantial currency mismatch with its non –"pesofied" foreign currency debt. The Hedge Bonds to be issued by the Argentine Government are designed to eliminate this currency mismatch. However, the Hedge Bonds yield approximately 2% whereas the Bank's foreign currency liabilities yield approximately 10%. In addition, the Hedge Bonds will be funded by peso-denominated Argentine Central Bank debt bearing interest at CER plus 2%.

As a result, on August 15, 2002 the Board of Directors resolved to start a debt restructuring plan comprising the Bank's obligation in Bonds and loans received from foreign banks and entities.

On January 14, 2004 the Bank concluded its debt restructuring process in which approximately US\$ 1,208.4 million principal amount of bond and bank debt was restructured. Completion of the transaction was a significant step forward inasmuch as it aligns the Bank's principal and interest payments with its cash flow and attains a manageable debt profile.

Consummation of the debt restructuring has enabled the Bank to regain some of its financial stability and has improved its financial condition. The Bank also has fully hedged its foreign currency obligations and achieved a liability structure with an average life in excess of six years.

In addition to the positive effects derived from the Bank's debt restructuring, the principal changes compared to the previous periods result from its loan portfolio due to the improvement in asset quality and the positive impact of the Coeficiente de Variación Salarial (CVS) index during the period.

Finally, the Bank made progress in the implementation of its business diversification initiatives, including: i) an increase in loan products and lines of business and ii) development of new products, like credits cards (VISA) and pledge loans.

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

### **3. Comprehensive financial debt restructuring**

Based on the final validly offered amounts, and on the simultaneous restructuring of the Bank's existing bank debt, no proration factor has been applied to the cash or secured debt options.

As of December 31, 2003, the Bank recognized the effects of the restructuring as follows (i) a gain of Ps. 231,998 and Ps. 254,404 for restructuring of notes and financial loans, respectively, due to the reduction in principal amounts (under the "Gain on restructuring of notes" and "Gain on restructuring of financial loans" line items in the statement of income); (ii) a gain of Ps. 209,280 for lower interest accrued in 2003 (recorded as an adjustment to financial expenses); (iii) a gain of Ps. 88,016 for lower interest accrued in 2002 (recorded as an adjustment to other profits line item in the statement of income) and (iv) the establishment of a reserve for Ps. 59,271 for the StARS.

As discussed in the previous paragraphs, the new notes are secured by the establishment of a Trust under Argentine law. In December 2003, the Bank, as trustor, and ABN AMRO Bank N.V., as trustee, entered into a Trust Agreement, pursuant to which the Bank transferred government securities (BODEN 2012) and secured loans to the Trust. The Trust will maintain these assets for the benefit of the new secured noteholders. The Trust was established to secure principal and interest payments on the new notes. The Trust's assets consist only of the securities and loans transferred by the Bank and their respective proceeds.

After January 14, 2004, the exchange transaction settlement date, the Bank continued to exchange negotiable obligations with holders adhering to the offering late. At December 31, 2005, the face value of the obligations exchanged amounted to US\$ 7,430 and Euro 9,890.

At the date of these financial statements, the Bank had honored the total amount of amortization and interest according to the contractual terms.

### **4. Exposure to the Non-financial Public Sector**

As of the December 31, 2005, the Bank maintains Ps.3,918,054, in government-related assets. Those assets are detailed below:

- a) Government securities for Ps.2,137,977, (BODEN 2012 Ps.1,709,226, BODEN 2007 Ps.59,935, BODEN 2008 Ps.70,618, BOCON PRE 8 Ps.56,240, BOGAR Ps.212,964 and BOCON PRE V for Ps.293, BOCON PRO VII Ps.285, PAR BONDS 2038 Ps.46, DISCOUNTS BONDS 2033 Ps.26,588, NEGOTIABLE BONDS PBI Ps.1,782).
- b) Government-secured loans by the National Government for Ps.152,219, which originated from the exchange of government securities established by Decree 1387/01, accepted in repayment of non-performing mortgage loans acquired on the market.
- c) Loans to the provincial and municipal governments for Ps.125,894.
- d) Rights to receive BODEN 2012 (hedge and compensating bonds) for Ps.637,031 pursuant to Sections 28 and 29 of Decree 905/02.
- e) Other receivables for financial transactions for Ps.553,756 of which Ps.512,904 to BODEN 2012 corresponding repo transactions and Ps. 40,852 corresponding swap transactions (DISCOUNTS BONDS 2033 Ps.2,360, BOCON PRE 8 Ps.25,304, BODEN 2007 Ps.3,307, BOGAR Ps.9,881).

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

- f) Miscellaneous receivables for Ps.311,177 corresponding to assets transferred to the trust as collateral for the bonds and secured facilities derived from the debt exchange, of which Ps.177,478 correspond to BODEN 2012, and BODEN 2012 deposited as collateral for the currency swap transaction for Ps.133,699.

As of December 31, 2005, the Bank has Ps. 500,375 in government related advances to subscribe BODEN 2012, pursuant to Sections 28 and 29 of Decree 905/02.

The net exposure to the Public Sector, without considering liquid assets in accounts opened at the BCRA, amounts to Ps.3,417,679 and Ps. 2,526,498 at December 31, 2005 and 2004, respectively.

It is the Bank's intention to deliver as collateral for the allocation of the advance to the financing of the subscription of the hedge bonds, as indicated by Section 29 of Decree 905/02, the remaining public sector asset portfolio.

Through letters dated August 26 and December 28, 2004, Banco Hipotecario informed the BCRA that it had reserved secured bonds for a face value of 126,675,947 and freely available secured loans for a face value of 109,391,930, to be used as collateral for the advance from the BCRA for the subscription of the hedge bonds to which the Bank is entitled (pursuant to Section 29, subsect. f) and g) of Decree 905/02). In order to sort the collateral to be offered to the BCRA for the request of assistance loans and pursuant to the direct subscription and matching repayment processes, on October 21, 2005 the Bank submitted a new note containing a breakdown of secured bonds and freely available secured loans holdings for a face value of 123,151,984 and 127,900,865, respectively.

In addition, Decree 905/02 envisages in its Section 17 that in the event of default by the National Government on the payment of principal or interest on the bonds envisaged in Chapter II (BODEN) or the securities indicated in section 15, subsect. b) and c) (secured loans and BOGAR), for more than 30 days following the respective due dates, each financial institution will be entitled to repay in advance either fully or partially the advances received for the subscription of bonds, using for that purpose all or the equivalent portion of the assets provided as collateral, taken at the value in which they were recorded at the time the advances were granted, plus interest accrued until the repayment date, less the amount actually repaid.

Through Communication "A" 4084 dated January 30, 2004, the BCRA resolved that the assets delivered as collateral for the advances granted for the subscription of the bonds foreseen by Decree 905/02, ratified by Section 71 of Law 25827, may be excluded from the accounting valuation at present, technical or theoretical values at the discretion of the institutions, for a total or partial amount of the advances, pursuant to the provisions of Section 17 of that Decree, in which case they are to be recorded at the value admitted for purposes of the providing of collateral.

Considering that January 1, 2006, is the effective date for the provisions of section 12 of Communication "A" 3911 (Communication "A" 4455), indicating financial assistance to the Public Sector, covering all concepts (average), may not exceed 40% of the total Assets as of the last day of the previous month, and indicating that said assets have primarily originated from compensations allocated by the National Government for the effects caused by year 2002 crisis, on January 19, 2006, the Bank informed the BCRA that it would gradually reduce the ratio of assets subject to exposure to the Public Sector to the extent of the amortization and settlement carried out by the Government on bonds received for asymmetric compensation, in the currency of issuance. Furthermore, the same criterion will be used by

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

the Bank in the event of being forced to receive financial instruments issued by the Trustee of the Mortgage Loan Refinancing Trust as compensation for Private Sector debts (Law 25798).

In view of the above, the Bank's high exposure to the National Public Sector must be considered in the light of the liabilities assumed with the BCRA.

## **5. Significant Accounting Policies**

The following is a summary of significant accounting policies used in the preparation of the consolidated financial statements.

### **5.1. Foreign Currency Assets and Liabilities**

Foreign currency assets and liabilities are translated at the prevailing exchange rate at period-end. Transactions denominated in foreign currencies are translated into pesos at the prevailing exchange rates on the date of transaction settlement. Foreign currency transactions net gains or losses are recorded within "Financial income" or "Financial expenses" in the accompanying consolidated statements of income.

### **5.2. Government and Corporate Securities**

Argentine Banking GAAP requires banks to classify government securities into two categories: "held for trading" and "investment account".

Trading Securities are marked to market, at the Buenos Aires Stock Exchange spot quotation, and any difference between book value and their market value is recognized as a gain or loss in the consolidated income statement. Investment securities are carried at acquisition cost plus accretion of discount or amortization of premiums, and accrued interest, as applicable.

The BODEN US\$ 2012 government securities received as compensatory bonds are classified as "Investment Securities" and are recognized at their technical value (par value), in accordance with the rules issued by the BCRA. At the end of each year, the technical value of those securities increases on the basis of interest accrued under the issue terms and conditions. The new foreign currency balance is converted into pesos at the reference exchange rate published by the Argentine Central Bank.

The Bank has recorded Secured Bonds ("BOGAR") issued by the Fiduciary Fund for Provincial Development received within the framework of Decree 1579/02, Ministry of Economy Resolution 539/02 and complementary rules. These bonds have been stated at present value as required by the BCRA.

Discount Bonds exchanged for sovereign debt have been stated at the lower value arising from comparing the aggregate nominal cash flow until maturity, under the issue conditions of the new securities, to the carrying value of the securities offered, which is equivalent to the present value of the Secured Bonds.

### **5.3. Loans**

The portfolio of performing loans and loans due on ninety days or less has been valued in terms of the principal amounts actually lent, plus capitalized interest, net of principal amortization collected and debt balance refinancing, plus adjustments (from the application of the CER, and CVS where applicable) and accrued interest receivable and less the estimated reserve for loan losses.

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

Secured loans were valued until February 28, 2003 according to their origin as i) received in exchange for Argentine government securities, in line with Decree 1387/01, have been valued at the ratio established by the Ministry of Economy (face value plus interest accrued until November 6, 2001, less coupons receivable until November 30, 2001), maintaining for such purpose the value at which those government securities had been recorded in investment accounts, ii) received in exchange for government securities accepted for the repayment of non-performing loans, have been valued at the higher of their face value less the related allowance for loan losses or their market value. The gain arising from the difference between the face value of the secured loans received and the value at which those exchanged securities had been recorded in investment accounts or the carrying value, as the case may be, accrues on a straight-line basis during the term of those loans. Secured Loans originally denominated in foreign currency subject to Argentine legislation have been converted into pesos at the exchange rate of Ps. 1.40 per US dollar, as established by Law 25561, Decree 214 and complementary rules and amendments, the CER having been applied to the amount of those loans as from February 3, 2002.

Loans secured under Decree 1387/01 and other public sector loans are valued at the lower of present value (cash flows according to contract conditions, discounted at the rates of interest established by the Argentine Central Bank) or technical value (amount restated by the CER, where applicable, plus interest accrued in accordance with contract clauses). This value is compared to the theoretical value (book value at February 28, 2003, net of the offsetting account, plus adjustment by the CER, where applicable). The differences resulting from this comparison are shown in an assets offsetting account, if the result is positive, and expensed if the result is a loss. The balance will be adjusted according to the amount resulting from the calculation of the differences between those items, until they are used up. Once the balance has been used up, any subsequent valuation difference will be expensed.

Secured loans incorporated after February 28, 2003 are valued at cost grossed up for interest accrued at their internal rate of return.

Other loans to the public sector, not included in the preceding paragraph, originally granted in foreign currency have been converted into pesos at the exchange rate of Ps. 1.40 per US dollar, as established by Law 25561, Decree 214 and complementary rules and amendments. Since February 3, 2002, the CER has been applied to the amount of those loans and maximum rates have been established, as provided for by Decree 1579/02, if those assets were subjected to the Exchange of Provincial Public Debt.

Loans to the non-financial private sector originally granted in foreign currency have been converted into pesos at the exchange rate of Ps. 1.00 per US dollar, as established by Law 25561, Decree 214 and complementary rules and amendments. Since February 3, 2002, the CER and CVS have been applied to the amount of those loans and maximum rates have been established, depending on the borrower.

Law 25796 established the elimination of the CVS as from April 2004.

#### **5.4. Capitalization of Interest on Certain Pre-Restructuring Loans**

Until 2004, the Bank recognizes a return of 9% per annum (“the reference rate”) on certain of its Pre-Restructuring Loans (“Pre-Restructuring Loans” refers to individual and construction project mortgage loans extended through 1989, additional construction project mortgage loans advanced under commitments existing in 1989 and individual loans extended for the purchase of housing units in such construction projects). However, the cash interest payable by customers as a component of the monthly mortgage loan installments is sometimes less than the reference rate. The difference between the reference rate and the cash interest payable on the monthly loan installments is capitalized and added to

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

the principal of the related loan balances and is recorded in financial income under “Interest on loans and other receivables from financial transactions” in the accompanying consolidated statements of income. The increased interest rate and the recovery of the capitalized interest results in increasing monthly loan installments over time for affected borrowers. At December 31 2004 the Bank maintains a minimum numbers of loans in this situation.

The Bank discontinues the capitalization of interest when the related loan is over 90 days past due.

**5.5. Interest accruals and adjustments of principal amounts (CER and CVS)**

Interest accruals were determined using the exponential method for all lending and certain borrowing transactions in local and foreign currency whose total term was more than 92 days, and interest accruals for loans overdue more than 90 days were discontinued.

Adjustments of principal amounts from application of the CER were accrued as established by Argentine Central Bank regulations, and interest accruals for loans overdue more than 90 days were discontinued.

Interest is recognized on a cash basis on loans past-due for more than 90 days after reducing the balance of accrued interest.

**5.6. Derivative Financial Instruments**

During the year ended December 31, 2004, the Bank entered into foreign currency swaps to manage its foreign exchange rate risk on foreign currency denominated borrowings (other than US dollar). The Bank recognizes a receivable and payable at the time of the agreements, which reflect the amount of currencies to be exchanged at the closing date. The foreign currency -denominated receivable and payable arising from the swaps and the foreign currency-denominated borrowing are valued at face value plus interest accrued at the exchange rate outstanding at each period-end.

On March 5, and October 29, 2004, the Bank with Deutsche Bank AG and Credit Suisse First Boston executed currency swap contracts (Cross Currency Swap) for Euros 150,000 thousands and Euros 100,000 thousands, respectively. The purpose of these transactions is to reduce variations in the Bank’s results generated by the volatility of the Euro quotation, in view of the net liability position of that currency. Both transactions are secured by BODEN 2012.

On January 25, 2005, the Bank entered into a currency swap contract (Cross Currency Swap) with Deutsche Bank AG. According to this transaction, the Bank receives interest at a rate of 2% on a principal of Ps. 438,870 adjusted by applying the CER and pays interest at 180-day LIBOR plus 435 basis points on a principal of US\$ 150,000.

On February 1, 2005, the Bank entered into a currency swap contract (Cross Currency Swap) with Credit Suisse First Boston as a hedge for its liability exposure to CER index-adjustable peso denominated obligations. According to this transaction, the Bank receives interest at a rate of 2% on a principal of Ps.87,537 adjusted by applying the CER and pays interest at 180-day LIBOR plus 420 basis points on a principal of US\$30,000.

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

The purpose of these transactions is to reduce the volatility of the Bank's results derived from variations in the CER index, in view of the net liability position of CER-index adjustable instruments held by the Bank. Both transactions is secured by BODEN 2012.

On May 23, 2005, the Bank purchased a gold sales option involving 495 contracts of 100 ounces each, for a 180-day term and at a strike price of 400 U.S. dollars per gold ounce, recorded at fair market value, under Argentine Banking GAAP.

#### **5.7. Securitizations of Loans**

The Bank recorded the transfer of US dollar-denominated and peso-denominated mortgage loans to a mortgage trust and the issuance of mortgage bonds as a sale and recorded its retained interest in the securitization trusts at their principal amounts. Retained interests relating to certificates of participation are adjusted monthly for the net results of the Bank's equity in the trusts. A gain or loss was recognized for the difference between the cash proceeds received and the principal balance of mortgage loans underlying the mortgage bonds sold. Servicing assets or liabilities were not recognized at the time of sale.

Financial trust debt securities have been stated at face value, index-adjusted applying the CER, where applicable, plus interest accrued until the end of the period or year, as the case may be.

#### **5.8. Reserve for Loan Losses**

Reserves for loan losses established at December 31, 2005 and 2004, cover the minimum reserves required by the Argentine Central Bank, which consist of the debtors payment capacity and cash-flows analysis for commercial loans and clients aging for consumer loans, and were calculated considering the accounting policies adopted for certain refinanced consumer loans, certain contributions to the special relief fund, including the extraordinary contribution to that fund and the changes in certain estimates related to the loan portfolio.

Pursuant to the guidelines of Law 24441 on Housing and Construction Financing, the criterion followed by the Bank to set up reserves for construction projects, where the fiduciary ownership is transferred, consists in classifying debtors on the basis of the evaluation of the future cash flow of the individual project financed by the Bank.

Beginning April 1, 2000, the Bank has adopted a new policy regarding to provide reserves for non-performing individual loans. In general terms, this policy consists in the following:

- a. Maintaining for six months the classification and reserves in respect of all those loans subject to: i) the provision of article 13 of Law 24143 and ii) refinancing.
- b. After this period has expired, the Bank will proceed, as the case may be, as follows:
  - b.1. If the loan is no more than 30 days in arrears, it shall be reclassified under the "performing" category.
  - b.2. If the loan is more than 30 days in arrears, its classification will arise from the aggregate of the current number of days in arrears and those recorded before the refinancing.

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

- c. All individual loans, which are more than 24 months in arrears, must be 100% reserved. Loans and reserves are to be charge-off from the Bank's assets three months after the date on which those loans were fully covered by such reserve.
- d. Those loans that had been charged off, according to c. above, and which had been restructured and are still performing, are re-recorded as asset if no delinquency greater than 30 days is showed during the next six months.

As a result of the policies adopted, it means loans and reserves charged off from the Bank's assets three months after the date on which those loans were fully covered by 100% reserved, and in line with Argentine Central Bank rules, at December 31, 2005 and 2004 the Bank has recorded in memorandum accounts of Ps. 1,108,354 and Ps. 921,208, respectively.

Based on the foregoing, the Board of Directors of the Bank believes that the reserve for loan losses set up are sufficient to cover the minimum reserves required by the Argentine Banking GAAP rules and Argentine GAAP.

#### **5.9. Mortgage Related Insurance**

The Bank makes provision for incurred but not reported insurance claims and pending insurance claims based on historical loss experience. The Bank provides property damage, life and unemployment insurance for its mortgage loan customers as well as for debtors of loans which the Bank services. Income from insurance premiums is recognized as it is charged as a component of the monthly loan installment under "Income from services" in the accompanying consolidated statement of income.

The Bank discontinues accruing insurance premiums for individual loans when the related loan is over 90 days past due.

#### **5.10. Loans in trust pending securitization**

The Bank has executed various financial trust agreements under which it has transferred the fiduciary ownership of certain of its mortgage loans to First Trust of New York as trustee for the benefit of trust. Once the mortgage loans have been transferred, the trust fund, issues the corresponding debt securities and participation certificates and remits the proceeds to the Bank. The Bank may also retain an ownership interest in the trust in the form of securities or participation certificates.

These receivables, corresponding to pesofied mortgage loans registered in the name of the trustee, are recorded as an asset of the Bank as the trustee had not issued the corresponding securities and the Bank maintains the dual roles of trustor and sole beneficiary.

All the loans in trust at December 31, 2005 are held in a trust where the Bank is the only beneficiary and are not intended to be securitized



**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

**5.11 Investments in Other Companies**

Investments in Other Companies include equity investments in companies where a minority interest is held.

Under Argentine Banking GAAP, the equity method is used to account for investments where a significant influence in the corporate decision making process exists.

Permanent equity investments in companies where corporate decision are not influenced, are accounted for at the lower of cost and the bank's share of the net book value of the investee.

As of December 31, 2005 and 2004 investments in other companies include:

<b>Company</b>	<b>Ownership Interest %</b>	<b>Basis of accounting</b>
BHN Inmobiliaria SA	99.99%	Equity method
Mercado Abierto Electrónico SA	0.50%	Cost method
ACH SA	1.00%	Cost method

Although the Bank's holds the controlling interests in BHN Inmobiliaria SA, this company's financial statements have not been consolidated with those of the Bank because the Management considers that the business activities in which the former is engaged is not homogeneous or supplementary to those carried out by Banco Hipotecario SA.

**5.12 Bank Premises and Equipment and Miscellaneous Assets**

Bank premises and equipment are recorded at cost, adjusted for inflation (as described in Note 1.d), less accumulated depreciation.

Depreciation is computed under the straight-line method over the estimated useful lives of the related assets. The estimated useful lives for bank premises and equipment are as follows:

Buildings	50 years
Furniture and fixtures	10 years
Machinery and equipment	5 years
Other	5 years

The cost of maintenance and repairs of these properties is charged to expense as incurred. The cost of significant renewals and improvements are added to the carrying amount of the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the consolidated statement of income.

The Bank has recorded under "Miscellaneous assets" - properties received in lieu of payment. These assets are initially accounted at fair value, adjusted for inflation (as described in Note 1.d), less accumulated depreciation. Depreciation of Miscellaneous assets is also computed under the straight-line method over the estimated useful of the related assets.

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

**5.13 Intangible Assets, Net**

Intangible assets represent organization expenses incurred in the development of systems of Banco Hipotecario SA, as well as organization expenses incurred for the setting up and start-up of operations and software of BHN Sociedad de Inversión SA and BACS Banco de Crédito y Securitización SA. These assets are carried at cost, adjusted for inflation (as described in Note 1.d), less accumulated amortization. Intangible assets are amortized under the straight-line method over their estimated useful life.

**5.14. Other Financial Instruments**

On January 29, 2004, the Bank entered into a transaction as a partial hedging for the Stock Appreciation Right clause (“StARS”) included in the issuance of the Medium-term Secured Facility. This transaction involves 7,110,000 Class D ordinary shares in Banco Hipotecario SA. The amount agreed under this transaction was US\$17,519. The Bank recognized the right to receive its shares as an asset, which is marked to market based on the market value of its shares at period end.

During March 2004, the Bank executed a sale contract with DePfa Investment Bank Ltd. to repurchase bonds and Banco Hipotecario’s loans, by financing 50% of the eligible instruments purchase price. As of December 31, 2005 the Bank has recorded the payable with DePfa Investment Bank Ltd. and its accrued interest in “Other liabilities from financial transactions”

In order to match its assets and liabilities denominated in foreign currency and adjustable by the CER index, several repo transactions were carried out:

On April 28, 2005, the Bank entered into a repo transaction with DEPFA Investment Bank Ltd. for a face value of US\$ 65,600 in BODEN 2012, at a 83.25% market price (US\$ 54,612). This transaction accrues interest at LIBOR plus 1.4% and matures on August 3, 2007.

On August 2, 2005 the Bank entered into a repo transaction with Deutsche Bank AG, for a par value of US\$ 16,700 involving Ps. 28,000 in BODEN 2012. This transaction accrues interest at 180-day LIBOR plus 1.2% and matures on August 3, 2007.

On August 2, 2005, the Bank entered into a repo transaction with DEPFA Investment Bank Ltd, for a par value of US\$ 9,000 in BODEN 2012, at a market value of 78%. This transaction accrues interest at 180-day LIBOR plus 1.4% and matures on May 2, 2007.

On August 25, 2005, the Bank entered into a repo transaction with Deutsche Bank AG. for a face value of US\$ 15,000 involving Ps. 25,300 in BODEN 2012. This transaction accrues interest at 6-month LIBOR plus 1.15% and matures on August 3, 2007.

In November, 2005, the Bank entered into a repo transactions with DEPFA Investment Bank Ltd., for a face value of US\$ 30,000 involving Ps. 49,118 in BODEN 2012. These transactions accrue interests at 6-month LIBOR plus 1.15% and matures in February, 2008.

In November and December, 2005, the Bank entered into a repo transactions with Credit Suisse First Boston, for a face value of US\$ 8,200 involving Ps. 13,598 in BODEN 2012. These transactions accrue interests at 6-month LIBOR plus 1.15% and matures in August, 2007.

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

**5.15 Minority interest**

The breakdown of supplementary equity interests recorded in “Minority interests” in the accompanying consolidated balance sheets is as follows:

	%	Pesos
BHN Sociedad de Inversión SA	0.01%	Ps. 1
BACS Banco de Crédito y Securitización SA	30.00%	Ps. 31,574
Total		Ps. 31,575

**5.16 Income Tax**

The Bank recognizes income tax charges and liabilities on the basis of the tax returns corresponding to each fiscal year at the statutory tax rates. As of December 31, 2005, 2004 and 2003, the corporate tax rates were 35%. The Bank does not recognize deferred income taxes.

**5.17 Statements of Cash Flows**

The consolidated statements of cash flows were prepared using the measurement methods prescribed by the Argentine Central Bank, but in accordance with the presentation requirements of Statement of Financial Accounting Standards No. 95: *Statement of Cash Flows* (“SFAS No. 95”). SFAS 95 establishes specific presentation requirements and additional disclosures but does not provide guidance with respect with the inflation adjusted financial statements. The effect of inflation and foreign exchange gains and losses on cash flow related to financing and operating activities has been included in the line item “Monetary loss”, and the effect of inflation on cash balances has been included in a separate line item after cash flows from investing activities.

For purposes of reporting cash flows, “Cash and cash equivalents” include “Cash and due from banks”.

**5.18 Use of Estimates**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the financial statement dates and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include those required in the accounting of the reserve for loan losses, the reserve for contingencies and the fair value of derivative instruments. Since management's judgment involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates which would have a positive or negative effect on future period results.

**5.19 Advertising expenses**

The Bank expenses advertising expenses as incurred. Advertising expenses were approximately Ps. 10,312, Ps. 4,764 and Ps. 1,457 for the year ended December 31, 2005, 2004 and 2003.

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

**5.20 Dismissal indemnities**

The Bank does not set up any provisions to cover the risk of dismissal indemnities involving the staff. The disbursements in respect thereof are charged to the results for the year in which they occur.

**5.20 Reclassifications**

Certain balances from prior years have been reclassified to conform to the year ended December 31, 2005 presentation.

**6. Compensation granted by the national Government to Financial Institutions.**

(i) Asymmetric pesification

As provided for in the Public Emergency Law and various related decrees, a significant portion of banks' assets and liabilities denominated in foreign currency were converted into pesos at different exchange rates and adversely affected banks' net asset position in foreign currency. For example, US dollar denominated mortgage loans to individuals were converted to peso loans at a rate of 1 Peso for each US dollar, whereas US dollar deposits were converted to peso deposits at a rate of 1.4 Pesos for each US dollar.

Decree No. 214/02 of the Executive Branch provided for compensation to affected financial institutions through the issuance of Argentine government bonds for up to the aggregate amount of the losses calculated to have been incurred as a result of the conversion of bank assets and liabilities into pesos at different exchange rates, the short foreign currency positions that resulted from such conversion and the devaluation of the peso. Decree No. 494/02 established a methodology for the calculation of the amount of compensation and established that the government objective in providing such compensation was to ensure that shareholders' equity return to the levels prior to the pesification, by compensating:

- the losses caused by the conversion into pesos of affected liabilities at the Ps.1.40 per U.S. dollar, whereas affected assets are converted at an exchange rate of Ps.1 per U.S. dollar. Compensation is achieved through Argentine Government issuance of a peso-denominated bonds (Compensatory Bond).
- the currency mismatch generated by the compulsory pesification of different portions of financial institutions' assets and liabilities. Realignment of the currency position would be achieved through the conversion of the originally peso-denominated Compensating Bond into a dollar-denominated Compensating Bond and, if necessary, through the purchase of a dollar-denominated Hedge Bond from the Argentine government.

In connection with the Bank's right to receive the amounts claimed for Compensating and Hedge Bonds, the Bank has recognized the right to receive the Compensating Bonds and the right to purchase the Hedge Bonds at their equivalent value as if the Bank had the associated bonds in their possession, and has recognized the associated liability to fund the Hedge Bonds as if the Bank had executed the debt agreement with the Argentine Central Bank. The receivable is denominated in US dollars bearing interest at 2% whereas the liability to the Argentine Central Bank is denominated in pesos with interest being accrued at CER plus 2%, each retroactive to February 3, 2002.

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

The conditions for financing the subscription of the “National Government Bonds in US Dollars Libor Due 2012” have been specified in Section 29, subsection g) of Decree N° 905/02.

As of December 31, 2005 and 2004, the Bank has recorded Ps.637,031 and Ps.2,689,738 of right to receive BODEN 2012 (hedge bonds), respectively, and Ps. 500,375 and Ps. 2,228,182 in government related to advances to subscribe BODEN 2012.

After a series of submissions presented in reply to observations made by the Superintendency of Financial and Exchange Institutions and recommendations of the Argentine Ministry of Economy, on April 6, 2005 the Board of Directors of the Bank decided to agree to the BCRA resolution, which reduced the value of the compensation by approximately Ps. 47,201 as of September 30, 2005. For such purpose, these financial statements for interim periods include that sum as an increased liability with the BCRA, with the counterpart in provisions for Ps. 30,000 and the prior year adjustment for Ps. 17,202 (see Note 27).

With the adjustment ordered by the BCRA and the acceptance by the Board of Directors of the Bank, the new compensation amount would be US\$ 374,647 (compensation) and the coverage amount US\$ 845,729.

In accordance to Argentine Central Bank regulations and Decree 905, in September 2002 and October 2005 the Argentine Central Bank credited US\$ 356,015 and US\$ 16,761 in BODEN 2012, respectively as compensation.

Finally, in December 2005 the subscription process for hedge BODEN 2012 began and was carried out in the following stages:

- September 30, 2005: direct exchange of US\$ 55,174 in BODEN 2012 through the delivery of Government-Secured Loans for a face value of US\$ 59,584, being its book value Ps.125,740 pursuant to the provisions of Communication “A” 3911.
- September 30, 2005: direct subscription of US\$ 175,778 in cash with funds obtained from the sale of Government-Secured Loans at market price for US\$ 192,001, being its book value Ps. 393,555 pursuant to the provisions of Communication “A” 3911.
- October 6, 2005: direct subscription of US\$ 77,283 in cash with funds obtained from the collection of amortization and interest services on BODEN 2012 held in the Bank’s portfolio and from the Bank’s own funds.
- October 21, 2005: direct subscription of US\$ 25,453 in cash with funds obtained from the issuance of CHA Series V under “Cédulas Hipotecarias Argentina – program” (see Note 27.1).
- November 11, 2005: direct subscription of US\$ 50,046 in cash with funds obtained from the collection of amortization and interest services on BODEN 2012 held in the Bank’s portfolio and from the sale of Secured Loans at market price for US\$ 48,663, being its book value Ps. 91,512 pursuant to the provisions of Communication “A” 3911.

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

- November 16, 2005: direct subscription of US\$ 171,223 in cash with funds obtained from the collection of amortization and interest services on BODEN 2012 held in the Bank's portfolio and from the Bank's own funds.
- November 25, 2005: direct subscription of US\$ 47,480 in cash with funds obtained from the collection of amortization and interest services on BODEN 2012 held in the Bank's portfolio and from the Bank's own funds.
- December 13, 2005: direct subscription of US\$ 49,875 in cash with Bank's own funds.
- January 24, 2006: direct exchange of US\$ 4,943 in BODEN 2012 through the delivery of Government-Secured Loans for a face value of US\$ 5,241, being its book value Ps.7,540 pursuant to the provisions of Communication "A" 3911.
- January 27, 2006: direct subscription of US\$ 116,276 in cash with Bank's own funds.

On June 23, 2005 BACS Banco de Crédito y Securitización SA submitted to the BCRA a note requesting the review of the determined calculation of compensating bonds.

For purposes of these financial statements, i) BODEN 2012 bonds credited by the Argentine Central Bank have been recorded in Government and Corporate Securities - Holdings in investment accounts, ii) the amount in respect of the right to collect the compensating and coverage bonds has been recorded in Other Receivables for financial Transactions – Receivable for Argentine Government Compensating and Hedge Bond - In foreign currency, iii) bonds delivered as collateral for Negotiable Obligations and secured facilities to banks, in Miscellaneous Receivables, and iv) the amount of the obligation to be assumed as a counterpart for the Hedge Bond, in Other liabilities for financial transactions - Argentine Central Bank.

(ii) Asymmetric indexation

Law 25796, regulated by Decree 117/04, established a mechanism for compensating financial institutions for the effects generated by the application of the Salary Variation Index (CVS) to some of their assets, and the Reference Stabilization Index (CER), to some of their liabilities.

On May 3, 2004, Ministry of Economy and Production Resolution N° 302/04 was published in the Official Gazette, approving the method to be used by the Finance Secretariat for calculating the amount of "peso-denominated National Government Bonds accruing interest at variable rates and due 2013" to be delivered to financial institutions adhering to the Compensation regime created by Law 25796.

On May 18, 2004, the Bank submitted letter N° 194 informing the Central Bank that it will not adhere to this regime, and stating its wish to be compensated for the negative effects on its equity derived from application of the CVS to certain assets converted into pesos and from the unequal application of the CER to certain liabilities, and expressly reserving its right to seek relief.

As of December 31, 2005 and 2004, the Bank has recorded the effects of the compensation for asymmetric pesification as a positive contingency in memorandum accounts for Ps. 81,645 (for both years).

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

**7. Summary of differences between Argentine Banking GAAP and Argentine GAAP**

The Bank's accounting policies and financial statement presentation generally conform to the rules prescribed by the Argentine Central Bank which prescribes the reporting and disclosure policies for all banks and financial institutions in Argentina ("Argentine Banking GAAP"). These rules differ in certain respects from Argentine GAAP ("Generally Accepted Accounting Principles in Argentina"). Argentine Banking GAAP and Argentine GAAP also differ in certain significant respects from generally accepted accounting principles in the United States of America ("US GAAP"). Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by US GAAP and regulations of the Securities and Exchange Commission ("SEC"). The following is a summary of the principal differences between Argentine Banking GAAP and Argentine GAAP:

7.1 Valuation criteria

a) Compensation to be received, per Sections 28 and 29 of National Executive Branch Decree 905/02, and investment account securities

As of December 31, 2005 and 2004, the Bank carries the government securities received and to be received in the "Government Securities – holdings in investment accounts" and "Other Receivables for financial transactions" captions, respectively, arising from the compensation established by Sections 28 and 29 of National Executive Branch Decree 905/02.

Under Argentine GAAP, those assets should be marked to market with the resulting gain or loss reflected in the income statement, unless the Bank demonstrates the ability and the intention to maintain these securities upon maturity.

b) Provision for allowances for receivables from the non-financial public sector

Current regulations on the setting up of allowances issued by the Argentine Central Bank provide that receivables from the Public Sector are not subject to allowances for doubtful accounts. Under Argentine GAAP, the allowance for losses is recognized when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the terms of the agreements.

c) Accounting for income taxes

The Bank determines income tax at the statutory rate applicable to the estimated taxable income, without considering the effect of any timing differences between the accounting and taxable results. Under Argentine GAAP income tax must be recognized according to the liability method.

d) Secured loans, government and other similar securities

In view of Decree No. 1387/01 dated November 6, 2001, in the fiscal year ended December 31, 2001, the Bank exchanged with the National State national government securities (classified and valued as "Investment accounts", according to the criteria established by the BCRA) for national secured loans which, at December 2005 and 2004 were recorded under "Loans to the Public Sector". Furthermore, as established by Decree 1579/02 the Bank and the Fiduciary Fund for the Provincial Development

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

exchanged loans to the provincial governments for Provincial Secured Loans (BOGAR) which at December 31, 2005 and 2004 have been disclosed under Government and Corporate Securities.

At those dates, the Bank valued the two assets at the lower of present or technical value, as established by BCRA Communication "A" 3911 and complementary rules, as amended, except for those used as collateral for advances granted by the Governing Entity for the subscription of the bonds foreseen in Decree 905/02. Under the provisions of CD Resolution No. 290/01 of the CPCECABA, at December 31, 2005 and 2004 those assets should have been valued on the basis of the respective quotation values of the securities exchanged as of November 6, 2001, which are considered to be the transaction cost as from that date, where applicable, plus interest accrued at the internal rate of return until the end of each period.

The Bank has recorded as a prior year adjustment the positive difference arising from recognizing the loans to the Public Sector at their repayment value for the acquisition of Hedge Bonds (per National Executive Branch Decree 905/02) following the guidelines of Communication "A" 4095. Under professional accounting standards, this item is to be charged to the result for the year, because it was accrued this year.

e) Compensation for application of the CER/CVS

In March 31, 2004, the Bank has written off the compensation amount for asymmetric indexation and charged it to the results for prior years, according to the criterion established by BCRA Communication "A" 4202. Under professional accounting standards, that compensation amount should have been charged to the results for the current year.

f) Valuation at equity value

For purposes of calculating the equity value, Technical Pronouncement No. 21 establishes that the closing date of the fiscal year of investors is to coincide with that of the issuing companies, a criterion that differs from Argentine Central Bank regulations. Under professional accounting standards, the same valuation criterion is also to be applied to all subsidiaries.

g) Derivatives

Currency swap transactions carried out as a hedge for the Bank's exposure to CER index-adjustable peso denominated liabilities, without transferring the underlying asset, have been valued according to the net asset or liability position derived from variations in the underlying assets (CER plus 2% for assets) and variations in the US dollar quotation plus interest agreed for liabilities. This criterion differs from professional accounting standards.

7.2 Additional disclosure requirements

There are certain disclosure requirements established by Argentine GAAP, such as earnings per share and disclosures about segment information, that differ from what is required under Argentine Banking GAAP by Circular CONAU 1.



**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

**8. Restricted Assets**

In view of the commitments undertaken under the Bank's external debt exchange offer (Note 3), a trust was created under Argentine law by means of a Trust Agreement entered into by and between the Bank and ABN AMRO BANK, Argentine Branch. At December 31, 2005 and 2004, BODEN 2012 for Ps. 177,478 and Ps. 484,710, respectively and the yield there on and National Government Secured Loans for Ps. 8,834 had been transferred to the trust at December 31, 2004. These guarantees have been recorded in "Miscellaneous Receivables".

At December 31, 2005 and 2004, the Bank has deposited BODEN 2012 for Ps. 133,699 and Ps. 76,163, respectively as collateral for the currency swap transaction.

At December 31, 2005 and 2004 the "Miscellaneous Receivables" caption includes shares securing call options written for Ps. 109 and Ps. 17,372, respectively.

At December 31, 2004, the Bank set up specific guarantees as security for compliance with the future sale contract entered into with DePfa Investment Bank Ltd. for Ps. 996. These escrow deposits have been recorded in "Miscellaneous Receivables".

Additionally, BACS Banco de Crédito y Securitización SA (Consolidated Company) carries certificates of participation in the BACS II Financial Trust and BACS Funding I Mortgage Trust as collateral for the financing line held with International Finance Corporation (IFC).

**9. Privatization**

In accordance with The Privatization Law under which the Bank became a private company, provides that, until August 2007, the Bank will (i) continue to provide residential mortgage financing on a geographically balanced basis in Argentina; (ii) make available 10% of the Bank's housing construction credit lines for housing in districts with populations of less than 50,000; and (iii) maintain a special reserve funded from 2% of the cash interest collected on its housing loans to subsidize the repayment of loans for borrowers adversely affected by emergency economic conditions.

Additionally, the Privatization Law preserved the right of the Bank to conduct its insurance activities without being subject to the supervision of the Argentine Superintendency of Insurance (the "Insurance Superintendency"). However, the Bank is required to comply with certain reserve requirements of the Insurance Superintendency.

On February 2, 1999, *Banco Nación* as trustee of the *Fondo Fiduciario Federal de Infraestructura Regional* ("FFFRI") made a combined public offering of 42,000,000 Class D shares in American Depository Shares ("ADS") form and ordinary form and 270,000 options, each representing the right to purchase 100 ADSs from FFFRI. Investors must acquire a minimum number of ADSs in order to be eligible to be allocated options. The options are exercisable at any time after February 2, 2000 up to and including February 2, 2004. A total of 13,616,606 Class D shares and 61,289 options, each representing the right to purchase 100 ADSs, were sold in Argentina with the authorization of the CNV and 28,383,394 ADSs, each representing one Class D share and 208,711 options, each representing the right to purchase 100 ADSs, were sold in the international capital markets in reliance on Rule 144 A under the United States Securities Act of 1933, as amended. Prior to the offering, all shares were under the

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

ownership and control of the Argentine government. The Bank received no proceeds from this offering and will not receive any proceeds from the exercise of the aforementioned options.

As a result of the expiration of the time frame for exercising the options indicated above, on February 2, 2004 certain holders of those options acquired 17,909,500 class D shares.

**10. Government and Corporate securities**

Securities held by the Bank consist of the following balances:

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
Held-for-investment- Quoted		
Boden 2012- compensating bond (US\$).....	Ps. 1,709,226	Ps. 298,751
Trading		
- Quoted		
Argentine government bonds (Pesos).....	189,247	115,101
Argentine government bonds (US\$).....	-	2,905
Corporate securities (Pesos).....	5,860	30,384
Argentine Central Bank bills (Pesos).....	50,220	154,286
Corporate securities (US\$).....	25,496	18,993
- Unquoted		
National and provincial government bonds (Pesos)....	239,504	200,252
National government bonds (US\$).....	-	34,452
Total	<u>Ps. 2,219,553</u>	<u>Ps. 855,124</u>

**11. Loans**

Descriptions of the categories of loans in the accompanying balance sheets include:

- *Public Loans – loans to National Government and Provinces*
- *Mortgage loans*
  - *Construction project loans* - loans made to various entities for the construction of housing units
  - *Individual residential mortgage loans* - mortgage loans made to individuals to finance the acquisition, construction, completion, enlargement, and/or remodeling of their homes
- *Other loans - certain financial and non-financial sector loans including loans to credit cardholders and to individuals*

Under Argentine Central Bank regulations, the Bank must disclose the composition of its loan portfolio by non-financial Public sector, and financial and non-financial private sector. Additionally, the Bank must disclose the type of collateral pledged on non-financial private sector loans. The breakdown of the Bank's loan portfolio in this regard is as follows:

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

	December 31,	
	2005	2004
Non-financial public sector.....	Ps. 211,280	Ps. 576,949
Financial sector.....	22,800	79,520
Non-financial private sector		
With preferred guarantees (a).....	1,535,659	1,631,126
With other guarantees.....	515,520	276,501
Accrued interest receivable.....	94,476	291,698
Reserve for loan losses (see Note 12).....	(172,743)	(287,527)
Total	<u>Ps. 2,206,992</u>	<u>Ps. 2,568,267</u>

(a) Preferred guarantees include first priority mortgages or pledges, cash, gold or public sector bond collateral, certain collateral held in trust, or certain guarantees by the Argentine government.

## 12. Reserve for loan losses

The activity in the reserve for loan losses of the Bank for the years presented is as follows:

a) Loans:

	December 31,	
	2005	2004
Balance at beginning of year.....	Ps. 287,527	Ps. 389,678
Provision/(recovery) charged to income.....	4,439	326
Loans charged off.....	(119,223)	(102,477)
Balance at end of year.....	<u>Ps. 172,743</u>	<u>Ps. 287,527</u>

b) Loans in trust pending securitization:

	December 31,	
	2005	2004
Balance at beginning of year.....	Ps. 47,305	Ps. 30,129
Provision charged to income.....	15,432	17,176
Loans charged off.....	(29,562)	-
Balance at end of year.....	<u>Ps. 33,175</u>	<u>Ps. 47,305</u>

## 13. Other receivables from financial transactions

The breakdown of other receivables from financial transactions, by type of guarantee for the years indicated, is as follows:

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
Preferred guarantees, including deposits with the Argentine Central Bank.....	Ps. 1,006,667	Ps. 3,181,056
Unsecured guarantees.....	1,859,367	1,468,278
Subtotal	2,866,034	4,649,334
Less: Reserve for loan losses.....	(33,175)	(47,305)
Total	<u>Ps. 2,832,859</u>	<u>Ps. 4,602,029</u>

Miscellaneous other receivable from financial transactions for the years indicated is as follows:

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
Class B subordinated mortgage-backed bonds.....	118,627	99,411
Certificates of participation.....	126,670	112,973
Bonds held in the Bank's portfolio (1).....	227,240	239,724
Treasury shares receivable (see Note 5.14).....	83,187	73,944
Forward Sale Contract (2) .....	49,920	112,740
Other.....	16,814	25,162
Total	<u>Ps. 622,458</u>	<u>Ps. 662,721</u>

(1) The Bank carries long-term Negotiable Obligations for Ps. 132,576 held in its portfolio for purposes of their possible exchange with holders that did not participate in the initial offering.

(2) Since March 2004, the Bank has been executing forward sale contracts with DePfa Investment Bank Ltd. to repurchase bonds and Banco Hipotecario's loans, by financing 50% of the eligible instruments purchase price.

**14. Miscellaneous receivables, net**

Miscellaneous receivables, net are comprised of the following for the years indicated:

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
Withholdings, credits and prepaid income tax.....	Ps. 13,395	13,099
Receivables from governmental entities.....	490	3,893
Recoverable expenses, taxes, and advances to third parties.....	18,547	13,127
Bank correspondents.....	509	2,458
Guarantee deposit (1).....	311,177	570,704
Presumptive minimum income – Credit tax.....	25,107	-
Receivables from master servicing activities.....	5,458	6,000
Directors fees (2).....	20,292	-
Other Directors fees.....	7,608	5,847
Other.....	85,700	45,539
Subtotal	<u>488,283</u>	<u>660,667</u>

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

Less: Reserve for collection risks.....	(9,454)	(27,857)
Total	Ps. 478,829	Ps. 632,810

(1) As of December 31, 2005 guarantee deposits comprised mainly BODEN 2012 granted as collateral to: i) Ps. 133,699 deposit securing financial agreements and ii) Ps. 177,478 deposit securing ABN AMRO BANK trust (Guaranteed Bond).

(2) Approved by the General Shareholders' Meeting held on August 31, 2005. From such amount, Ps. 6,307 relate to income tax withholdings made (see Note 17).

**15. Bank Premises and Equipment, net and Intangible Assets, net**

The book values of major categories of bank premises and equipment and total accumulated depreciation as of the years indicated are as follows:

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
Land and buildings.....	Ps. 99,278	Ps. 99,278
Furniture and fixtures.....	15,447	14,891
Machinery and equipment.....	41,388	39,816
Other.....	4,625	4,428
Accumulated depreciation.....	(72,164)	(66,376)
Total	Ps. 88,574	Ps. 92,037

Intangible assets, net of accumulated amortization, as of the end of years indicated is as follows:

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
Third parties fees, re-engineering, restructuring and capitalized software costs.....	8,465	8,139
Total	Ps. 8,465	Ps. 8,139

**16. Miscellaneous assets, net**

Miscellaneous assets, net consists of the following as of the end of each period:

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
Properties to be sold.....	Ps. 21,215	Ps. 20,453
Assets leased to others.....	8,833	9,475
Other.....	3,544	2,889

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

Accumulated depreciation.....	(8,959)	(9,020)
Total	Ps. 24,633	Ps. 23,797

**17. Reserve for contingencies**

The reserve for contingencies as of the end of each year is as follows:

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
Contingencies.....	Ps. 95,632	Ps. 103,061
Incurred but not reported and pending insurance claims (1).....	10,843	10,098
Contingency risks (2).....	88,540	136,582
Tax Provision.....	9,973	21,200
Other.....	4,752	4,840
Total	Ps. 209,740	Ps. 275,781

(1) As of December 31, 2005 and 2004, it is composed of: technical commitments for Ps. 1,831 and Ps. 978 (pending risks for Ps.1,831 and Ps. 978, without generating charges against the reserve for insufficient premiums), Debts to insured for Ps. 1,362 and Ps. 1,745 (outstanding claims for Ps. 1,043 and Ps. 1,126, IBNR for Ps. 319 and Ps. 21 and Reserves for FFAA claims for Ps. 598 and Ps. 598) and Allowances for Ps. 7,650 and Ps. 7,375 (Catastrophe allowance), respectively.

(2) Composed of: Ps. 38,058 and Ps. 59,271 under the Stock Appreciation Rights (StARS) clause; Ps. 35,379 and Ps. 21,870 relating to the profit-sharing and stock appreciation compensation plans and Ps. 15,103 and Ps. 55,441 of Provision for early retirement, in all cases as of December 31, 2005 and 2004.

**18. Other Liabilities from Financial Transactions - Argentine Central Bank**

The amounts outstanding corresponding to the Argentine Central Bank debt and advances, as of the end of each year is as follows:

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
Advances to be incurred for the acquisition of National government bonds in U.S. Dollars (1).....	Ps. 500,375	Ps. 1,870,265
Financial assistance granted by Argentine Central Bank (2).....	-	357,917
Total	Ps. 500,375	Ps. 2,228,182

(1) Includes CER plus interest at 2% until February 3, 2002.

(2) Financial assistance includes CER plus interest at 3.50%.

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

On January 20 and February 25, 2005 the Bank took part in the tender offer established by the BCRA in accordance with the guidelines of Communications “A” 4268 and 4282, the amounts of Ps. 63,759 and 16,924, respectively, having been accepted in settlement of the previously refinanced debt.

On May 3, 2005, the Bank had repaid principal and interest, according to that schedule, and settled the total amount due on May 3, 2005.

From the Bank has been reduced the advances to be incurred for the acquisition of National government bonds in U.S. Dollars by subscription additional BODEN’s (see note 6).

**19. Other Liabilities from Financial Transactions - Other Banks and International Entities**

The breakdown of the bank debt is as follows:

Description	Due date	December 31,	
		2005	2004
Warehousing Credit Line Agreement with IFC.....	2005	-	18,817
Secured facility in US dollars.....	2010	-	145,525
Long-term facility in US dollars at a fixed rate.....	2013	-	74,647
Long-term facility in US dollars at floating rates.....	2013	-	17,903
Loan granted by CSFB.....	2005	-	193,297
Loan granted by Deutsche Bank.....	2006	60,630	59,476
Loan granted by Deutsche Bank.....	2006	90,945	-
Loan granted by Deutsche Bank.....	2006	151,575	-
Interbank loans in pesos.....	2006	57,079	-
Total		<b>360,229</b>	<b>509,665</b>

On September 30, 2004, a loan was obtained from Deutsche Bank London for US\$ 20,000 falling due on March 31, 2006, on which interest is paid at 180-day LIBOR, plus 4.4% margin.

On January 28, 2005, a loan was obtained from Deutsche Bank New York for US\$ 30,000, falling due on July 28, 2006 on which interest will be paid at 180 day Libor, plus 400 basic points.

On August 25, 2005, a loan was obtained from Deutsche Bank London for US\$ 50,000, falling due on August 28, 2006, on which interest will be paid at 180 –day Libor, plus 275 basis points.

Due date of the loans are as follows as of December 31, 2005:

December 31, 2006.....	Ps.	360,229
Total	Ps.	<b>360,229</b>

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

**20. Other Liabilities from Financial Transactions - Bonds**

The balance of the negotiable obligations has been included in the “Other liabilities for financial transactions” caption. The residual face values of the different negotiable obligation series issued are as follows:

	Date of issue	Date of Maturity	Annual interest rate	December 31,	
				2005	2004
EMTN (CHA)					
Series III (US\$ 100,000)	07/08/96	07/08/06	10.625% (*)	2,143	2,102
GMTN					
Series I (US\$ 300,000)	17/04/98	17/04/03	10.000%	35,551	36,301
Series IV (US\$ 175,000)	03/12/98	03/12/08	13.000% (*)	1,637	,606
Seres VI (US\$ 135,909)	15/03/99	15/03/02	12.250%	2,058	2,019
Series XVI (US\$ 125,000)	17/02/00	17/02/03	12.625%	30,940	30,844
Series XVII (EURO 100,000)	27/03/00	27/03/02	9.000%	2,550	2,962
Series XXII (EURO 100,000)	18/10/00	18/10/02	8.750%	467	779
Series XXIII (EURO 150,000)	06/02/01	06/02/04	10.750%	19,885	24,178
Series XXIV (US\$ 107,000)	15/03/02	15/03/05	9.000% (*)	18,307	19,076
Series XXV (EURO 165,700)	15/03/02	15/06/05	8.000% (*)	17,309	23,767
Guaranteed bond (US\$107,941)	15/09/03	03/08/10	Libor + 2.5%	111,554	168,213
Long term bond (US\$449,880)	15/09/03	01/12/13	3.0 – 6.0%	1,041,557	1,294,138
Long term bond (EURO 278,367)	15/09/03	01/12/13	3.0 – 6.0%	950,513	1,111,272
Series 4 PGEIN (US\$ 150,000)	16/11/05	16/11/10	9.750%	445,141	-
				2,679,612	2,717,257

The contractual maturities of bonds are as follows as of December 31, 2005:

Past due (*).....	Ps.	130,847
December 31, 2006.....		22,311
December 31, 2007.....		22,311
December 31, 2008.....		354,189
December 31, 2009.....		354,189
December 31, 2010.....		799,329
Thereafter.....		996,436
Total	Ps.	2,679,612

(\*) All the debt included in the restructuring process was considered Past due.

During the year ended December 31, 2005 the Bank repurchased negotiable obligations and debt, according to the following detail:

- 1) Guaranteed Bond (US\$) for a face value of US\$ 11,209.
- 2) Long-Term Bond (US\$) for a face value of US\$ 76,702.
- 3) Long-Term Bond (Euro) for a face value of Euros 5,718.
- 4) Secured Facilities (US\$) for a face value of US\$ 40,777.
- 5) Long-term Facilities (US\$) at a Floating-rate for a face value of US\$ 6,020.

On January 13, 2006, the Bank proceeded to fully redeem the Guaranteed Bond in US Dollars, which had been issued for debt restructuring purposes and was due in August, 2010, for US\$ 36,798.



**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

The results of these transactions have been recorded under Financial Income.

**21. Derivative Financial Instruments**

On March 5, and October 29, 2004, the Bank with Deutsche Bank AG and Credit Suisse First Boston executed currency swap contracts (Cross Currency Swap) for Euros 150,000 and Euros 100,000, respectively. The purpose of these transactions is to reduce variations in the Bank's results generated by the volatility of the Euro quotation, in view of the net liability position of that currency. Both transactions are secured by BODEN 2012.

On January 25, 2005, the Bank entered into a currency swap contract (Cross Currency Swap) with Deutsche Bank AG. According to this transaction, the Bank receives interest at a rate of 2% on a principal of Ps. 438,870 adjusted by applying the CER and pays interest at 180-day LIBOR plus 435 basis points on a principal of US\$ 150,000. The purpose of this transaction was to reduce the volatility of the Bank's results derived from variations in the CER index, in view of the net liability position of CER-index adjustable instruments held by the Bank. This transaction is secured by BODEN 2012.

On February 1, 2005, the Bank entered into a currency swap contract (Cross Currency Swap) with Credit Suisse First Boston as a hedge for its liability exposure to CER index-adjustable peso denominated obligations. According to this transaction, the Bank receives interest at a rate of 2% on a principal of Ps.87,537 adjusted by applying the CER and pays interest at 180-day LIBOR plus 420 basis points on a principal of US\$30,000. The purpose of this transaction was to reduce the volatility of the Bank's results derived from variations in the CER index, in view of the net liability position of CER-index adjustable instruments held by the Bank. This transaction is secured by BODEN 2012.

On May 23, 2005, the Bank purchased a gold sales option involving 495 contracts of 100 ounces each, for a 180-day term and at a strike price of US\$ 400 per gold ounce.

**22. Securitization of mortgage loans**

During 1996, 1997, 2000, 2001, 2002, 2004 and 2005, the Bank established thirteen separate mortgage trusts (BHN I Mortgage Fund, BHN II Mortgage Trust, BHN III Mortgage Trust, BHN IV Mortgage Trust, BACS I Mortgage Trust, BACS Funding I Mortgage Trust, BACS Funding II Mortgage Trust, BHSA I 2002 Mortgage Trust, CHA I Financial Trust, CHA II Financial Trust, CHA III Financial Trust, CHA IV Financial Trust and CHA V Financial Trust) under its US securitization program and "Cédulas Hipotecarias Argentina – program". For each mortgage trust, the Bank transfers a portfolio of mortgages originated by banks and other financial institutions in trust to the relevant trustee. The trustee then issues Class A senior Bonds, Class B subordinated bonds and certificates of participation. The trust's payment obligations in respect of these instruments are collateralized by, and recourse is limited to, the trust's assets consisting of the portfolio of mortgages and any reserve fund established by the Bank for such purpose. The securitizations were recorded as sales, and accordingly, the mortgage loans conveyed to the trusts are no longer recorded as assets of the Bank.

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

**23. Miscellaneous Liabilities**

Sundry creditors and other miscellaneous liabilities consist of the following as of the end of each year:

	<b>December 31,</b>			
	<b>2005</b>		<b>2004</b>	
Sundry creditors:				
Accrued fees and expenses.....	Ps.	20,612	Ps.	16,753
Unallocated collections.....		8,950		12,867
Loan guarantee funds.....		19		30
Withholdings and taxes payable.....		7,448		2,220
Other.....		4,679		5,725
Total	Ps.	<u>41,708</u>	Ps.	<u>37,595</u>
Other:				
Directors accrued fees.....	Ps.	2,806	Ps.	5,845
Payroll withholdings and contributions.....		2,534		1,833
Other.....		2,170		795
Total	Ps.	<u>7,510</u>	Ps.	<u>8,473</u>

**24. Income from Services and Expenses on Services**

*Income from Services - Commissions and Other*

Commissions earned consist of the following for each year:

	<b>December 31,</b>					
	<b>2005</b>		<b>2004</b>		<b>2003</b>	
Loan servicing fees from third parties.....	Ps.	1,713	Ps.	2,209	Ps.	3,063
Commissions from FONAVI.....		3,199		2,969		2,996
Other.....	Ps.	9,209	Ps.	25,291	Ps.	1,322
Total		<u>14,121</u>		<u>30,469</u>		<u>7,381</u>

Other income from services is comprised of the following for each year:

	<b>December 31,</b>					
	<b>2005</b>		<b>2004</b>		<b>2003</b>	
Reimbursement of loan expenses paid by third parties	Ps.	8,410	Ps.	9,829	Ps.	13,024
Other.....		16,518		1,683		961
Total	Ps.	<u>24,928</u>	Ps.	<u>11,512</u>	Ps.	<u>13,985</u>

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

*Expenses on Services - Commissions*

Commissions expensed consist of the following for each year:

	<b>December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Structuring and underwriting fees.....	Ps. 5,147	Ps. 5,763	Ps. 14,526
Retail bank originations.....	189	390	348
Collections.....	260	87	676
Banking services.....	10,799	6,209	4,138
Commissions paid to real state agents.....	2,073	541	64
Total	Ps. 18,468	Ps. 12,990	Ps. 19,752

**25. Other Miscellaneous Expenses**

Other miscellaneous expenses are comprised of the following for each year:

	<b>December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Depreciation of miscellaneous assets.....	Ps. 392	Ps. 543	Ps. 693
Gross revenue tax.....	370	916	187
Other taxes.....	6,712	4,548	2,234
Loss on sale and impairment of premises and equipment and miscellaneous assets.....	-	7,361	927
Benefits prepayments.....	-	2,642	16,323
Other.....	4,228	4,127	2,497
Total	Ps. 11,702	Ps. 20,137	Ps. 22,861

**26. Balances in Foreign Currency**

The balances of assets and liabilities denominated in foreign currency (principally in US dollars and Euros) are as follows:

Assets:

Cash and due from banks.....	Ps. 223,490
Government and corporate securities.....	1,734,733
Loans.....	12,690
Other receivables from financial transactions.....	2,334,645
Miscellaneous receivables.....	314,520
In-process items.....	66
Total as of December 31, 2005	Ps. 4,620,144
Total as of December 31, 2004	Ps. 5,322,814

Liabilities:

Deposits.....	Ps. 55,095
Other liabilities from financial transactions.....	4,381,001
Miscellaneous liabilities.....	819

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

Total as of December 31, 2005	Ps. 4,436,915
Total as of December 31, 2004	Ps. 4,281,922

**27. Prior Year adjustment.**

Capitalization of the minimum notional income tax credit: As established by BCRA Communication “A” 4295, the Bank capitalized the credit derived from the payment of the minimum notional income tax for the fiscal year 2003 and the amount estimated for the fiscal year 2004, allocating such recovery for Ps.21,850 to Prior year adjustment.

Observations of the BCRA on the calculation of the compensation for asymmetric pesification pursuant to Sections 28 and 29 of Decree 905/02: As mentioned in Note 5, on April 6, 2005 the Bank’s Board of Directors decided to accept the observations made by the BCRA regarding the calculation of the compensation for the asymmetric pesification of assets and liabilities. The Ps.17,202 amount not covered by an allowance in the previous year has been allocated to Prior year adjustments.

**28. Resolutions N° 15119 and 15205 by the Argentine Securities Commission (CNV)**

Through Resolution No. 15119 of July 21, 2005, the Argentine Securities Commission (CNV) decided to conduct a preliminary investigation on BH S.A. and its Directors, Syndics and Market Relationship Manager in relation to certain payments of fees established for members of the Bank Executive Committee based on the Profit Sharing and Stock Appreciation regime approved by the General Shareholders’ Meeting held on April 28, 1999 and May 31, 2004 and made during June, 2005. Among other issues, the National Securities Commission states: i) that the abovementioned remunerative payments required prior approval by the Bank’s shareholders in order to be legitimate, ii) that, since the Bank is an entity authorized to publicly offer and trade shares representing its own capital stock, it was necessary to inform the CNV about any changes introduced to the compensation system and iii) that the amount paid was not consistent with market standards.

On July 21, 2005, and not knowing about the preliminary investigation, the Bank’s Board of Directors had decided to submit the abovementioned fees to the consideration of a shareholders’ meeting to be held within the shortest possible legal term. This made it easier to decide, during the meeting held on July 25, 2005 to call a Annual General Shareholders’ Meeting for August 31, 2005 General Meeting in order to deal as main item on the agenda the analysis of fees payable to Executive Committee Directors for Ps.2,771 for profit sharing and Ps.17,521 for stock appreciation accrued during the period ended December 31, 2004, which reported a computable loss pursuant to the Argentine Securities Commission standards.

On the other hand, those Executive Committee Directors who received fees regarding the items mentioned above created time deposits with Bank for the corresponding amounts net of tax withholdings which were used as collateral in favor of the Bank in case of a decision against its rights.

On August 31, 2005 the General Annual Shareholders’ Meeting decided to approve the payment of Ps.2,771 for profit sharing and Ps.17,521 for stock appreciation to the Executive Committee Directors to be allocated as its beneficiaries see fit, to be allocated to the results of this fiscal year and thus reversing the provision created on December 31, 2004 and reserves allocated to that effect. On February 14, 2006,

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

the Bank received a notice served by Federal Court No. 9, Clerk's Office No. 17, in connection with the case captioned "National State – Ministry of Economy w/ Banco Hipotecario o/Common Pleas", informing a the court's order to suspend, for precautionary reasons, the decision approved by the abovementioned meeting.

It is worth mentioning that in the financial statements corresponding to the period ended December 31, 2004, and to this period include liability provisions charged to Miscellaneous losses for Ps.21,870 and Ps.30,215, respectively corresponding to calculations duly made to cover the liabilities inherent to profit sharing and stock appreciation rights. Also, as of December 31, 2005, the Bank decided to record Ps. 20,292 in Assets – Miscellaneous receivables – Advance payments to directors, corresponding to the amounts approved by the Shareholders' Meeting held on August 31, 2005 as stated above.

Finally, through Resolution No. 15205 of September 30, 2005, the Argentine Securities Commission concluded its preliminary investigations and decided to fine the Bank for one million pesos (Ps. 1,000,000) to be jointly paid by the members of the Executive Committee, to send a warning to the remaining directors and a penalty to the members of the Syndic's Committee and the Market Relationship Manager, which have been appealed before the relevant Courts.

### **29. Income Tax**

Prior to January 1, 1996, the Bank was exempt from the payment of income tax. Beginning January 1, 1996, the Bank was only exempt from the payment of income tax on income from its operations, assets, and interest income attributable to its residential mortgage lending activities. Effective October 1997, as a result of conversion to a *sociedad anónima*, the Bank subject to income tax in Argentina except on its income attributable to mortgage loan commitments made prior to that date.

As a general rule, the income tax law allows the deduction of expenses incurred to obtain or maintain the source of taxable income. For purposes of deducting from the taxable revenues those expenses incurred to obtain jointly taxable and non –taxable income, expenses should be segregated accordingly.

Furthermore, the fiscal rule gives prerogative to the direct allocation method rather than the apportionment method to determine the deductible expenses. Thus, the apportionment method should only be used when it is not possible to make direct allocation of expenses to the taxable revenue.

The Bank currently has a tax net operating loss carry forward of Ps. 2,090,323 at December 31, 2005.

### **30. Presumptive Minimum Income Tax**

The Bank is subject to presumptive minimum income tax. Pursuant to this tax regime, the Bank is required to pay the greater of the income tax or the presumptive minimum income tax. Any excess of the presumptive minimum income tax over the income tax may be carried forward and recognized as a tax credit against future income taxes payable over a 10-year period. The presumptive minimum income tax provision is calculated on an individual entity basis at the statutory asset tax rate of 1% and is based upon the taxable assets of each company as of the end of the year, as defined by Argentine law. For financial entities, the taxable basis is 20% of their computable assets.

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

As accepted by the BCRA, at June 30, 2005 the Bank capitalized only the Ps. 25,107 tax credit corresponding to the fiscal years 2003 and 2004 on the basis of projections of accounting and taxable results included in the Business Plan submitted to the BCRA and estimates of the main macroeconomic variables and fluctuations in the financial system for the next 10 fiscal years. This tax credit is expected to be used in fiscal years 2013 and 2014.

The tax credit balances held by the Bank at the closing date of these financial statements for interim periods are the following:

Year	Tax credit balance
1999	4,401
2000	6,034
2001	5,084
2002	9,121
2003	10,592
2004	14,515

### 31. Shareholders' Equity

The following information relates to the statements of changes in the Bank's shareholders' equity.

#### (a) *Common Stock*

Prior to June 30, 1997, the Bank's capital stock consisted of assigned capital with no par value owned 100% by the Argentine government. In accordance with the by-laws approved as a result of the conversion of the Bank to a *sociedad anónima*, the Bank's capital stock was established at Ps.1,500,000 and divided into four classes of ordinary common shares.

As of December 31, 2005, the Bank's capital stock consists of 150 million of ordinary common shares authorized, issued, and outstanding with a face value of ten pesos each.

Shareholder	Class of Shares	Number of Shares	Total % Ownership	Voting Rights
Argentine government (through FFFRI) <i>Banco Nación</i> , as trustee for the Bank's <i>Programa de Propiedad Participada</i> (a)	A	65,853,444	43.9%	1 vote (b)
Argentine government (through FFFRI)	B	7,500,000	5.0%	1 vote
Public investors	C	7,500,000	5.0%	1 vote
	D	69,146,556	46.1%	3 votes (c)
		<u>150,000,000</u>	<u>100%</u>	

(a) The Bank's *Programa de Propiedad Participada* ("PPP") is the Bank's employee stock ownership plan.

(b) Under the Bylaws, the affirmative vote of the holders of Class A Shares is required in order to effectuate: (i) mergers or spin-offs; (ii) an acquisition of shares (constituting a Control Acquisition or resulting in the Bank being subject to a control situation); (iii) the transfer to third parties of a

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

substantial part of the loan portfolio of the Bank, (iv) a change in the Bank's corporate purpose; (v) the transfer of the Bank's corporate domicile outside of Argentina, and (vi) the voluntary dissolution of the Bank.

- (c) For so long as Class A Shares represent more than 42% of the Bank's capital, the Class D Shares shall be entitled to three votes per share, except that holders of Class D Shares will be entitled to one vote per share in the case of a vote on: (i) a fundamental change in the Bank's corporate purpose; (ii) a change of the Bank's domicile to be outside of Argentina; (iii) dissolution prior to the expiration of the Bank's corporate existence; (iv) a merger or spin-off in which the Bank is not the surviving corporation; and (v) a total or partial recapitalization following a mandatory reduction of capital.

The Class B shares have been set aside for sale to the Bank's employees in the future pursuant to the PPP on terms and conditions to be established by the Argentine government. Any Class B shares not acquired by the Bank's employees at the time the Bank implements the PPP will automatically convert into Class A shares. The Class C shares are eligible for sale only to companies engaging in housing construction or real estate activities. Any Class B shares transferred by an employee outside the PPP will automatically convert to Class D shares or Class C shares transferred to persons not engaged in construction or real estate activities will automatically convert into Class D shares.

***(b) Inflation adjustment of common stock***

As mentioned in Note 1.d. the Bank's consolidated financial statements were prepared on the basis of general price-level accounting which reflected changes in the purchase price of the peso in the historical financial statements until February 28, 2003. The inflation adjustments related to common stock were appropriated to inflation adjustment reserves that form part of shareholders' equity. According to Argentine Banking GAAP, the balances of the inflation adjustment reserves may be applied only towards the issuance of common stock to shareholders of the Bank.

***(c) Restriction on the distribution of profits***

In accordance with the regulations of the Argentine Central Bank, 20% of the Bank's annual net income net of any adjustments for prior periods must be allocated to a legal reserve. Legal reserve may be used to absorb losses.

Under Argentine law, cash dividends may be declared and paid only out of the Bank's unrestricted retained earnings reflected in the audited annual financial statements and approved by the shareholders.

Argentine Central Bank Communication "A" 4152 dated June 2, 2004 left without effect the suspension of the distribution of profits established by Communication "A" 3574. However, those banks which proceed to such distribution must be previously authorized by the Financial and Exchange Institutions Superintendency.

Furthermore, Argentine Central Bank Communication "A" 3785 dated October 29, 2002 restricted the distribution of cash dividends. Such rule establishes that the Bank should adjust its earnings to be distributed as cash dividends with the difference between the market value and the carrying value of the compensatory and hedge bonds after netting the legal reserve and other reserves established by the Bank's by-laws.

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

Under the contracts signed as a result of the restructuring of the Bank's financial debt, there are restrictions on the distribution of profits until such time as at least 60% of the total initial principal amount of the long-term and guaranteed tranches of the new debt has been amortized.

In addition, for the purposes of determining distributable balances, the minimum presumed income tax asset shall be deducted from retained earnings (Communication "A" 4295).

**(d) Minimum Capital Requirements**

Under the Argentine Central Bank regulations, the Bank is required to maintain minimum levels of capital, as defined ("minimum capital"). The minimum capital, is based upon risk-weighted assets, and the balances of Bank premises and equipment, intangible assets and unquoted equity investments. The required minimum capital and the Bank's capital calculated under Argentine Central Bank requirements were as follows:

	<b>Minimum Capital requirement</b>	<b>Shareholder's Equity</b>
December 31, 2005 .....Ps.	666,804 Ps.	2,197,192
December 31, 2004 .....	795,132	1,959,160
December 31, 2003 .....	-	-

As of December 31, 2003, the Argentine Central Bank had suspended the regulation requiring minimum levels of capital.

As called for by Argentine Central Bank Communication "A" 3986, effective January 2004, financial institutions were to comply with regulations on minimum capital which had been suspended until that time. That Communication provided that effective January 2004, an "alpha 1" coefficient was to be applied to temporarily reduce the minimum capital requirement to cover credit risk attaching to holdings in investment accounts and financing granted to the national non-financial public sector until May 31, 2003. It also provided for the application of an "alpha 2" coefficient effective January 2004, to temporarily reduce the minimum capital requirement to cover interest rate risk.

**32. Employee Benefit Plan**

The Bank is obligated to make employer contributions to the National Pension Plan System determined on the basis of the total monthly payroll. These expenses are recorded in "Salaries and social security contributions" under the "Administrative expenses" caption in the accompanying consolidated statements of income.

**33. Leases**

The Bank leases properties to various governmental entities under lease terms ranging from two to nine years. The Bank received rental income from government entities of Ps.630, Ps.678 and Ps. 679 during the years ended December 31, 2005, 2004 and 2003, respectively. Amounts receivable for rental income



**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

and related expenses from government entities were Ps.374 and Ps. 3,090 as of December 31, 2005 and 2004, respectively.

Cost and accumulated depreciation of the leased assets were Ps. 8,833 and Ps. 3,643 respectively, as of December 31, 2005 and Ps.9,475 and Ps.3,827 respectively, as of December 31, 2004.

#### **34. Contributions to the Deposit Guarantee Fund**

The Argentine Central Bank established rules governing the deposit guarantee system and the methods of computing required contributions. The monthly contributions include a standard contribution of 0.015% of the monthly average of daily balances in demand, saving and time deposits recorded in the second to last month, plus an additional contribution of up to 100% of the standard contribution depending on various weighting factors established by the Argentine Central Bank. The Bank's contributions to the deposit guarantee system amounted to Ps.603, Ps.469 and Ps.342 during the years ended December 31, 2005, 2004 and 2003, respectively and are recorded in "Contributions and taxes on financial income" under the "Financial expenses" caption on the accompanying consolidated statements of income.

#### **35. Financial Instruments with Off-Balance Sheet Risk**

The Bank is party to financial instruments with off-balance sheet risk in the normal course of its business in order to meet the financing needs of its customers. These instruments expose the Bank to credit risk in addition to amounts recognized in the balance sheets. These financial instruments include commitments to extend credit.

Commitments to extend credit are agreements to lend to a customer at a future date, subject to such customers meeting of pre-defined contractual milestones. Typically, the Bank will commit to extend financing for construction project lending on the basis of the certified progress of the work under construction. Most arrangements require the borrower to pledge the land or buildings under construction as collateral. As of December 31, 2005 and 2004, the commitments to extend credit under these arrangements amounted to approximately Ps.60,511 and Ps.9,468, respectively.

In the opinion of management, the Bank's outstanding commitments do not represent unusual credit risk. The Bank's exposure to credit loss in the event of nonperformance by the other party is represented by the contractual notional amount of those commitments.

The Bank accounts for items drawn on other banks in memorandum accounts until such time as the related item clears or is accepted. In the opinion of management, the Bank's risk of loss on these clearing transactions is not significant as the transactions primarily relate to collections on behalf of third parties. The amounts of clearing items in process were Ps. 13,252 and Ps 1,463 as of December 31, 2005 and 2004, respectively.

Additionally, the Bank recorded in memorandum accounts: i) Guaranteed provided to the Argentine Central Bank for Ps. 357,542 and Ps. 911,197 as of December 31, 2005 and 2004 respectively, and ii) other guarantees provided not included in the debtor classification regulations for Ps. 311,177 and Ps.569,707 as of December 31, 2005 and 2004, respectively.

**BANCO HIPOTECARIO S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the three year ended December 31, 2005, 2004 and 2003**  
**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

**36. Out-of-court reorganization plan**

On June 9, 2004, the Bank requested approval of an out-of-court reorganization plan from the Federal Court of Original Jurisdiction on Commercial Matters No. 14, Clerk's Office No. 28. On October 29, 2004 that court rejected the plan submitted, because it considered that financial institutions may not resort to this type of proceeding. The Bank has lodged an appeal against the lower court decision, which has been admitted and is currently being heard by the corresponding appellate court.

**37. Subsequent Events**

**37.1 Early redemption of restructured negotiable obligations**

On January 13, 2006, the Bank proceeded to fully redeem the Guaranteed Bond in US Dollars, which had been issued for debt restructuring purposes and was due in August, 2010, for US\$ 36,798. At the same time, the Bank proceeded to issue "StARS" equivalent to the redeemed rights in force.

**37.2. Reopening fo the issuance of negotiable obligations Series 4-2010**

On January 20, 2006 the subscription period for Tranche II of Negotiable Obligations Series IV, which had been opened on December 29, 2005, was closed. The real amount of this transaction amounted to US\$ 100,000 due on 2010 and with a 9.75% annual coupon rate payable semiannually. The closing date for the placement process and public offering pursuant to General Resolution No. 470/04 of the National Securities Commission was January 20, 2006. After placement of Tranche II, the amount of the issued negotiable obligations Series IV totals US\$ 250 million. The issue was placed in local and international capital markets, in Europe and Asia, among institutional and retail investors.

**REGISTERED OFFICE OF THE BANK**

Banco Hipotecario S.A.  
Reconquista 151  
1003 Buenos Aires, Argentina

**TRUSTEE, REGISTRAR, PRINCIPAL PAYING  
AGENT AND TRANSFER AGENT**

HSBC Bank USA, National Association  
452 Fifth Avenue  
New York, New York 10018  
United States of America  
Attn: Issuer Services  
+ 1 (212) 525-1300 (fax)

**CO-REGISTRAR, PAYING AGENT AND  
TRANSFER AGENT**

HSBC Bank Argentina S.A.  
Av. De Mayo 701  
23° Piso  
C1084AAC Buenos Aires  
Argentina  
+ 5411-4344-3354 (fax)

**REPRESENTATIVE OF THE TRUSTEE IN ARGENTINA**

HSBC Bank Argentina S.A.  
Av. De Mayo 701, 23° Piso  
C1084AAC Buenos Aires  
Argentina

**ARRANGERS AND DEALERS**

Citigroup Global Markets Inc.  
390 Greenwich Street  
New York, NY 10013  
United States of America

Deutsche Bank Securities Inc.  
60 Wall Street  
New York, NY 10005  
United States of America

**LUXEMBOURG LISTING AGENT**

Fortis Banque Luxembourg S.A.  
50 Avenue J.F. Kennedy  
L2951 Luxembourg

Attention: Julien Hoffmann/Christian Hochstrasser  
Reference: "Banco Hipotecario Exchange Offer"  
+ 352 4242 2887 (fax)

**AUDITORS**

Price Waterhouse & Co. S.R.L.  
Bouchard 557, 7° Piso  
(C1106ABG) Buenos Aires, Argentina

**LUXEMBOURG PAYING AGENT AND  
TRANSFER AGENT**

Dexia Banque Internationale à Luxembourg, société anonyme  
69 route d'Esch  
L - 2953 Luxembourg  
Attention: Transaction Execution Group  
+ 352 4590 1 (fax)  
+ 352 4590 4227 (phone)

**LEGAL ADVISORS TO THE BANK**

*In respect of U.S. Law*  
Simpson Thacher & Bartlett LLP  
425 Lexington Avenue  
New York, NY 10017  
United States of America

*In respect of Argentine Law*  
Zang, Bergel & Viñes  
Florida 537 - Piso 18 Galeria Jardin  
1005 - Buenos Aires  
Argentina

**LEGAL ADVISORS TO THE ARRANGERS AND DEALERS**

*In respect of U.S. Law*  
Shearman & Sterling LLP  
599 Lexington Avenue  
New York, NY 10022  
United States of America

*In respect of Argentine Law*  
Bruchou, Fernández Madero, Lombardi & Mitrani  
Ing. Butty 275 – Piso 12  
Buenos Aires, Argentina  
Argentina



**REGISTERED OFFICE OF THE BANK**

Banco Hipotecario S.A.  
Reconquista 151  
1003 Buenos Aires, Argentina

**TRUSTEE, REGISTRAR, PRINCIPAL PAYING  
AGENT AND TRANSFER AGENT**

HSBC Bank USA  
452 Fifth Avenue  
New York, New York 10018  
United States of America  
Attn: Issuer Services  
+ 1 (212) 525-1300 (fax)

**CO-REGISTRAR, PAYING AGENT AND  
TRANSFER AGENT**

HSBC Bank Argentina S.A.  
Av. De Mayo 701  
23° Piso  
C 1084AAC Buenos Aires  
Argentina  
+ 5411-4344-3354 (fax)

**REPRESENTATIVE OF THE TRUSTEE IN ARGENTINA**

HSBC Bank Argentina S.A.  
Av. De Mayo 701, 23° Piso  
C 1084AAC Buenos Aires  
Argentina

**ARRANGERS AND DEALERS**

Citigroup Global Markets Inc.  
390 Greenwich Street  
New York, NY 10013  
United States

Deutsche Bank Securities Inc.  
60 Wall Street  
New York, NY 10005  
United States

**LUXEMBOURG LISTING AGENT**

Banque Générale du Luxembourg S.A.  
50 Avenue J.F. Kennedy  
L2951 Luxembourg  
Attention: Cédric Sottiaux

Reference: "Banco Hipotecario Exchange Offer"  
+ 352 4242 2887 (fax)

**AUDITORS**

Price Waterhouse & Co. S.R.L.  
Boulevard 557, 7° Piso  
(C1106ABG) Buenos Aires, Argentina

**LUXEMBOURG PAYING AGENT AND  
TRANSFER AGENT**

Dexia Banque Internationale à Luxembourg, société anonyme  
69 route d'Esch  
L - 2953 Luxembourg  
Attention: Transaction Execution Group  
+ 352 4590 1 (fax)  
+ 352 4590 4227 (phone)

**LEGAL ADVISORS TO THE BANK**

*In respect of U.S. Law*  
Simpson Thacher & Bartlett LLP  
425 Lexington Avenue  
New York, NY 10017  
United States of America

*In respect of Argentine Law*  
Zang, Bergel & Viñes  
Florida 537 - Piso 18 Galeria Jardin  
1005 - Buenos Aires  
Argentina

**LEGAL ADVISORS TO THE ARRANGERS AND DEALERS**

*In respect of U.S. Law*  
Shearman & Sterling LLP  
599 Lexington Avenue  
New York, NY 10022  
United States of America

*In respect of Argentine Law*  
Bruchou, Fernández Madero, Lombardi & Mitrani  
Ing. Butty 275 – Piso 12  
Buenos Aires, Argentina  
Argentina

---

# BANCO HIPOTECARIO

---

**US\$250,000,000**  
**Global Medium-Term Note Program**

**9.75% Notes due 2016**

---

**PRICING SUPPLEMENT**

**April 20, 2006**

---

**Citigroup**

**Deutsche Bank Securities**

---