ARGENTINEAN BANKS (BMAAR & GALIAR)

Will stricter regulations finally hit bank´s balance sheets?

The banking industry is currently experiencing some headwinds that should continue in the short to medium term. This follows 10 positive years for the banking industry, in which Argentine banks achieved sustained growth in financial intermediation, reached strong capitalization levels, and filled the market share left by foreign banks after the 2001/2 crisis. Recent increase in government intervention (see industry risks) in addition to a new Central Bank president (with less autonomy from the central government) puts pressure on banks´ profitability through the increase in regulation.

…as a result of the macro

Argentina´s economy has been decelerating at a fast rate and is expected to finish 2014 with negative GDP growth (-1.5/-2%). This, combined with higher inflation (around 35%), FX devaluation, uncertainty in the holdout case and stricter regulations has already taken **a toll on banks through loan deceleration and weaker core profitability.** More specifically, the macro deceleration should impact employment figures and as a result personal and credit card loans (the main driver of the industry's growth) should suffer the most.

But financials still robust

Still, capitalization ratios and Allowances of the banking system are still robust at 100% and 13%, respectively, after years of strong performance. During the 2002-2013 period, th**e banking industry achieved a sustained growth,** CAGR for deposits to the private sector were 23% while loans were 26%. Loans to GDP improved from 9% in 2004 to 13% in 2014 while deposits to GDP ratio remained at around 18% as a result of solid GDP performance.

Argentine Banking penetration still below regional peers

The industry is still fragmented compared to regional players. The top five banks hold 47.3% of the loans to the private sector, while in Colombia, Peru and Chile the ratio stands at a much higher 70%-90%.

In addition, **banking private credit penetration is one of the lowest in Latin America at 13% of GDP**, which compares to Colombia at 32% and LatAm´s leader Chile at 66%. The penetration is directly linked to the country´s lower supply for long term credit, mortgage loans and retail banking presence, which are still low in Argentina.

While this sector has grown even above the country´s GDP, there is still significant room for further growth if the country solves its structural and debt issues something not expected in the short term.

Recommendation

We believe that at current levels, **GALIAR19 more than compensates the risk embedded in its subordinated structure (Tier 2 capital)**. Moreover, at current prices, Galicia 19´s call option at par is a risk that has been losing strength. The bonds are considered tier 2 capital, so in order to call the notes, the bank would need to capitalize to obtain an excess over the required capital. Considering the possible deterioration in asset quality and the current limited access to capital markets, we consider it's difficult for Galicia to call the notes. (See bond table on page 10)

INDUSTRY RISKS

Significant (and increasing) level of Regulation and intervention

LIMITATIONS ON FX ASSETS: The Central Bank (BCRA) has imposed a limitation of foreign currency holding in order to reduce the ever growing gap between the official and parallel FX rate. First, it established a limit of 30% of the lesser between of the banks´ capital and liquid funds (known as RPC, for its Spanish acronym). Note that before the limit was implemented, the average was 70%. Then in September, the limit was reduced even further to 20%. Banks were forced to liquidate their US$ positions in February and September, in order to comply with the rule. This leaves the local banks more exposed to a depreciation of the local currency, given that they have a less dollarized portfolio.

CAPS ON INTEREST RATES: On June 10th, 2014, the BCRA announced caps on personal and car loans. For big banks, rates on personal loans and car loans cannot exceed the LEBAC 90 day interest rate by 1.45x and 1.25x times, respectively. At current levels, this would translate in rates of 32.5% for car loans, 37.9% for personal loans and 47% for credit card loans. For smaller banks, the caps are higher: 39.5% for personal loans, 50.8% for personal loans and 58% for credit card loans. This reduced the banks´ incentives to grow their credit portfolio. In addition, this is expected to have a negative impact on net interest margins (NIM).

LOANS TO SMEs AT BELOW MARKET RATES: Since mid-2012, the BCRA imposed banks to allocate 5% of its average monthly deposits to SMEs loans (50% of the amount) with a rate cap of 15% (well below market rates and inflation). The goal is to incentivize the investment in fixed asset of SMEs to foster production. The loans have an average life of 24 months with a capital amortization tenor at least of 36 months.

FLOOR ON DEPOSIT RATES: Passive rates on term deposits (lower than AR$ 350K) will have to be equivalent to 87-93% of the yield of Lebacs -at current levels, this means hiking passive rates from 18% to 22/23%, in average. This measure will reduce NIM and profitability of banks, forcing them to expand credit. Nevertheless the policy implemented has the aim to reduce the dollarization of savings through the parallel FX market. In addition, the amount eligible for the deposit insurance fund increased from AR$ 120k to AR$ 350K which will impact directly in profitability. Moreover, the Central Bank is evaluating to increase the reserve requirements to strengthen the measure against the parallel FX.

The new measures imposed this week (see above on floor on deposit rates) could generate losses of as much as AR$ 7200M. The higher interest rates on deposits (23%) will generate AR$ 3000M of additional payments, while the increase in the amounts for the deposit insurance fund will force banks to freeze an additional AR$ 4200M in the central bank.

Macro deterioration: High levels of inflation and ongoing depreciation: The ongoing macro slowdown partly as a result of the very high levels of inflation (35% annualized, according to private estimates) and the FX pressure (56% devaluation YTD, and a gap of 77% between the official and parallel FX) should reduce the appetite for consumer, personal, pledged financing and personal loans.

During the last few months, personal loans growth has decelerated to a monthly rate of 0.5% (down from 1%), pledged to +0.5% and personal loans to 4%. Sight deposits decreased by AR$ 3100 million during July and August, the biggest drop in the past 5 months. This decline was more pronounced in the public banks. Bank deposits in private banks increased by 0.6% during that period. Although they recovered during September, it is being hard for locals to find an incentive to increase their deposits given the low (and decreasing) rates (negative in real terms) and weakening local currency vs. the US$. Moreover, this should deteriorate the asset quality by increasing the NPLs and reducing banks´ profitability.

Uncertainty in the Holdouts case: The Argentinean default and the lack of a resolution in the holdout case increased the cost and reduced the tenor of offshore funding for of local banks, which financed import and export trade transactions. Offshore entities increased funding by 200bps (from Libor + 4% to Libor +6%) after the sovereign default. As a result, this should result in a reduction in the corporate loan portfolio. In addition, banks could experience some price volatility in their government bond portfolio as uncertainty continues.

THE BANKS

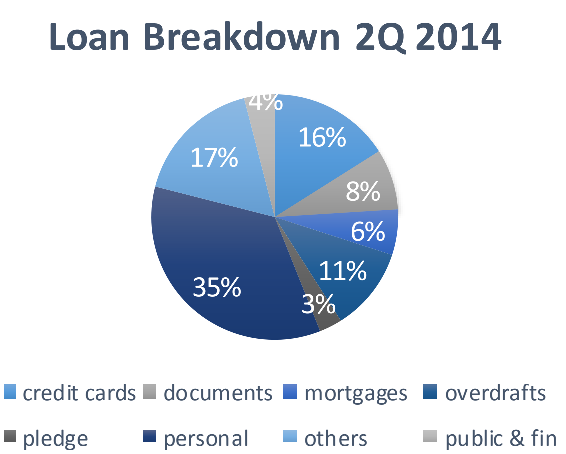
BANCO MACRO

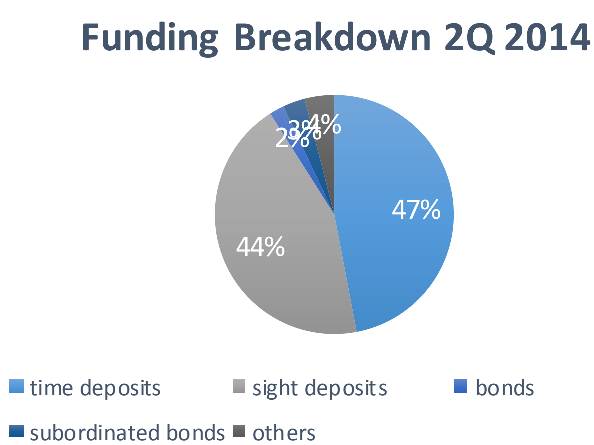
About the bank: Banco Macro is Argentina´s third largest private bank in Argentina in terms of assets, loans and deposits targeting low-middle income retail clients and SMEs.

Key highlights

Loan growth exceeds the average of Argentine private banks: Over the past 5 years (2009-2013) BMA loan growth has outperformed the Argentinean private banking system (CAGR of 29% of BMA vs. 27% for the system). This significant growth has been mainly driven by personal loans and loans to SME, in line with the government´s model to boost private consumption and public spending. Note that loan growth in the public banks has grown by 31% a year in the past five years outperforming all the rest.

Strong Deposit base: Deposits grew at a CAGR of 24% during the same period. Of the total deposits, 53% are time deposits from retail accounts. The Gross loans / deposit ratio stood at 80%.





Strong Deposit base: Deposits grew at a CAGR of 24% during the same period. Of the total deposits, 53% are time deposits from retail accounts. The Gross loans / deposit ratio stood at 80%.

Healthy Asset quality: Loans account for 55% of total assets. Of the total loans, 35% are personal loans. Within the personal loans, 88% are payroll loans (or 30% of total loans) which bear a low credit risk as they are debited directly from the debtor´s payroll. This strategy is focused on low and mid-income individuals which reduces the risk of consumer banking products and NPLs. As a result, NPL ratio as of 2Q 14 was low at 2%, in line with the local financial system but below regional peers. Allowances as a percentage of NPLs were 133.1% compared to 140.5% of the local financial system in 2Q14.

Unique Branch network: BMA has the largest private sector branch network in Argentina and is the exclusive financial agent in 4 provinces. The bank has 431 branches throughout the country and 1173 ATMs with 79% of the branches placed in the provinces and the rest in the City and Province of Buenos Aires (note the concentration outside of the city). The long term relationship with the provincial governments provides a larger customer base with low cost funding sources from payroll accounts and growing fee income generation from cross selling capabilities. NIM stood at 14.7% in 2Q14, above the average of its regional peers and Banco Galicia (Galicia 12.6% and regional peers 5%). Time and sight deposits from retail clients account for 50% of deposits, providing the bank with a low cost funding.

Prudent Risk Management: BMA achieves an ample liquidity position since liquid assets (cash + government and private securities) as percentage of total deposits stood at 44.3%, improving the 29.5% achieved during 2Q13. As explained above, coverage ratio (133%) and loans to deposit ratio (80%) are above the local financial system. In addition, BMA has a conservative capital ratio of 23.2%, above its regional peers (regional leader Santander Brazil and Bancolombia stand at roughly 18%). BMA has a net long US$ position in its portfolio providing a natural hedge against an AR$ devaluation. Nevertheless, after the government restrictions of foreign currency holdings to 20% of the RPC. BMA has 14% of total assets in foreign currency holdings as of 2Q14, down from 16% in FY13.

COMPANY RISKS

Increasing exposure to government notes: As a result of the recessionary economic dynamics, loan growth has been decelerating, with deposits growing at a faster pace (100bps faster than loans) during 1H14. Therefore, BMA achieved excess liquidity which it allocated to central bank short term notes (LEBAC / NOBAC) in order to sustain profitability. Although this notes are considered very liquid, the bank is rapidly increasing its concentration risk towards the sovereign. Central bank notes increased from AR$ 57 million in 2Q13 to 7.8 billion during 2Q14, representing 11% of total assets in 2Q14 from 0.10% in 2Q13. In addition, central bank notes yield around 26%-28%, well below the country´s inflation rate (of roughly 35%, according to private estimates), translating into a negative real return and thus eroding profitability.

Earnings concentration: BMA has 43% of its financial income coming from interests on other loans (short term and mid-term corporate structured loans). This concentration is significant for a bank that is focused on low and mid income individuals. Therefore, any downturn in the economic environment could impact corporates and hence profitability. Nevertheless, interest on credit card loans amounted to 13% while income from securities (70% central bank notes) amounted to 16% from total financial income which gives some diversification to financial income.

FINANCIALS: 2Q14 QoQ deterioration…..

Banco Macro (BMA) reported 2Q14 results that showed a better YoY performance but weaker QoQ, as the bank started to suffer the deceleration of the Argentina economy, explained above. Demand for credit is weakening and NPLs are slightly higher –although still low. Capitalization continues to be robust and liquidity is solid although there is a higher concentration in Central Bank Notes. (see appendix I for more financial information).

All amounts in ARS million	2Q2014	2Q2013	1Q2014	Δ YoY	Δ QoQ
Net Interest Income	1,722	1,197	2,463	43.9%	-30.1%
Provision for Loan Losses	-168	-114	-131	47.3%	27.8%
Administrative expenses	-1,314	-1,003	-1,223	31.1%	7.5%
Net Income	733	460	1,186	59.1%	-38.2%
Cash + Gov. Securities	24,835	13,363	20,365	85.8%	21.9%
Total Loans	39,917	33,966	39,508	17.5%	1.0%
Allowances	-1,114	-948	-1,054	17.5%	5.6%
Deposits	51,278	39,530	46,914	29.7%	9.3%
Total Equity	9,931	7,102	9,814	39.8%	1.2%
Ratios					
Net Interest Margin	14.7%	12.3%	15.7%	240	-100
Eifficiency Ratio	44.0%	52.8%	38.0%	-900	-600
ROAA	4.3%	3.5%	7.6%	80	-330
ROAE	28.8%	26.4%	50.4%	240	-2160
NPLs / Total financing (%)	2.0%	1.9%	1.9%	10	10
Regulatory Capital / RWA (%)	23.2%	21.7%	22.7%	150	50

Banco Galicia

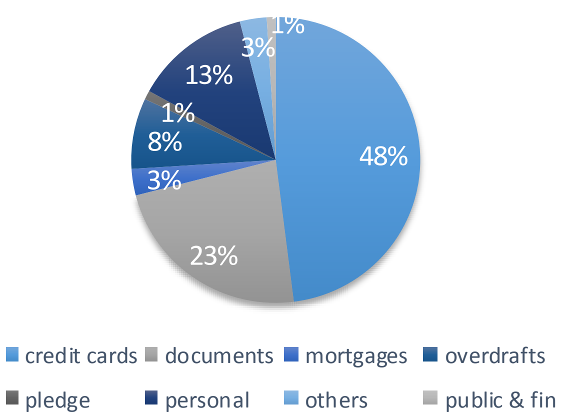
About the bank: Banco Galicia is Argentina´s second largest private bank in Argentina in terms of assets, loans and deposits targeting middle income individuals and SMEs.

Key highlights

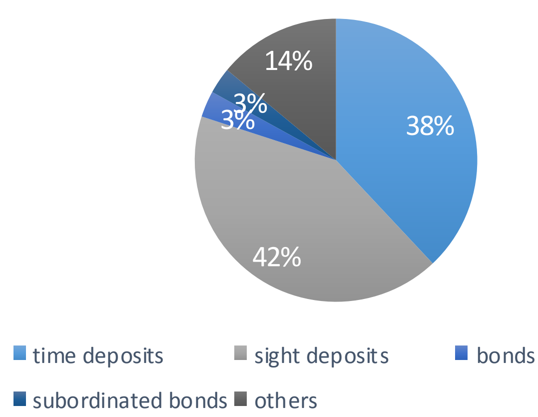
Market leader: Galicia retail oriented business model results in its strong market positioning in terms of deposits, assets, loans and number of credit cards issued. Galicia was the second largest private bank in terms of loans and deposits, with a market share of 8.2% in loans and 9.1% in deposits. As of 2Q 2014, total assets amounted to AR$ 95.4 billion, being the largest private bank in terms of assets. Regarding the credit card business, Galicia is the #3 bank in terms of credit cards issued (2.7 million cards). Moreover, including the consumer finance companies (TR + CFA) Galicia stands as the absolute market leader with 11.2 million cards. This strong market positioning enables Galicia to handle its capabilities in either a strong or weak macro scenario and has more room to manage the deceleration in the segment compared to other consumer oriented banks.

Loan and deposit growth outperformed the system: Galicia loan growth has slightly outperformed the growth of the Argentinean private banking system in the last five years. Galicia´s loan CAGR for the period 2009-2013 stood at 33% versus the 27% for the private banking system. Deposits grew at a CAGR of 29%, of which 52% are time deposits. Gross loans / deposit ratio stood at 104%. Loan growth is driven by personal loans and loans to middle market companies. Loan and deposit growth accompanied the government´s strategy but Galicia´s non-organic acquisitions helped to diversify and improve its income sources.

Loan Breakdown 2Q 2014



Funding Breakdown 2Q 2014



Strong consumer franchise and brand equity: Galicia consumer finance units are targeted to medium and low income segments. Tarjetas Regionales is the largest credit card issuer in Argentina with 8.1 million cards issued and 206 branches across the country. TR has 35% market share in purchase volume in the provinces and 14% nationwide. CFA is a leader in personal loans within consumer finance institutions. Most loans are in AR$ with no guarantee and fixed interest rate. ROE for these units are 26.3% and 13.4%, below Galicia´s 34% for 2Q14. Brand recognition and franchise value help Galicia to boost profitability and improve equity value.

Robust Profitability: Galicia improved its profitability strongly during the last 6 years. ROA stood at 3.2% during 2Q14 from 0.9% in 2008, while ROE stood at 34% in 2Q14 compared to 10.5% in 2008. As mentioned before, consumer growth in personal loans and credit card financing charged high interest rates to the segment (40%-50%) helping Galicia to boost its earnings. Therefore, NIM improved from 5.8% in 2008 to 14.7% in 2Q14 while net income improved from AR$ 195 million in 2008 to AR$ 1447 million in 1H14. Although some metrics (ROA, ROE) are below a few local peers, are above regional benchmarks. Nevertheless, regulations over interest rate cap on consumer loans are expected to hurt profitability.

COMPANY RISKS

Exposure to government notes: As a result of excess liquidity, since deposits grow faster than loans, Galicia allocated the excess funds in central bank short term notes (LEBAC / NOBAC). Therefore, concentration risk towards the sovereign is increasing. Central bank notes increased from AR$ 2.3 billion in 2Q13 to 6.8 billion during 2Q14, representing 7% of total assets in 2Q14 from 3.3% in 2Q13. Moreover, although the spread between BADLAR rate (20%) and central bank notes (26%-28%) is very profitable, the inflation rate stands at 35%, obtaining a negative yield which could hurt profitability and NIM since operating costs expands.

Concentration of Earnings: Galicia has 33% of its financial income generated from interests on credit card loans. This concentration could add volatility to earnings since the current downturn in the economic fundamentals could impact the portfolio and hence profitability. Nevertheless, there is some diversification as interest on other loans represent 19% of financial income whereas government securities (72% central bank notes) represent 16%.

Lower provision expenses: Provision expenses from Loan losses reached AR$ 1249 million in 2Q14 a 40% annualized increase compared to FY13 and a 43% compared to 1H13. This reflects Galicia´s growing lending operations supported by the consumer boom. Despite de increase, allowance for loans as a percentage of the bank´s loan portfolio stayed flat at 4.1% in 2Q14 compared to 2Q13, while it was 3.7% in FY13 compared to 3.9% in FY12. Although they remain healthy, NPL coverage ratio have been falling, from 115% in FY12 to 103.8% in FY13 and 101.7% in 2Q14. If provision continues to lag the increase in NPLs, asset quality would deteriorate further given Galicia´s exposure to the consumer segment. Note that Galicia´s NPLs coverage ratio is below many of its Latin-American (and local) peers (i.e. Macro, Bancolombia, Bradesco, Credicorp).

Financials: Mixed 2Q14 results

Banco Galicia posted mixed 2Q14 results compared to 1Q14, but stronger than 2Q13. The bank started to suffer the consequences of an economy experiencing a downward cycle with stricter bank regulations. Demand for credit is still robust in the large corporate segment while NPLs are higher driven by the consumer portfolio. However, Capitalization and liquidity metrics are strong, but slower loan growth led to higher concentration in Central Bank Notes to allocate liquidity and maintain profitability.

All amounts in ARS million	2Q2014	2Q2013	1Q2014	Δ YoY	Δ QoQ
Net Interest Income	2,187	1,597	2,532	36.9%	-13.6%
Provision for Loan Losses	567	435	682	30.3%	-16.9%
Administrative expenses	2,211	1,791	1,989	23.4%	11.2%
Net Income	673	383	774	75.8%	-13.0%
Cash + Gov. Securities	24,899	11,975	20,906	107.9%	19.1%
Net Loans	58,897	48,298	55,946	21.9%	5.3%
Allowances	2,519	2,067	2,372	21.9%	6.2%
Deposits	58,701	44,185	55,122	32.9%	6.5%
Total Equity	8,188	5,610	7,514	46.0%	9.0%
Ratios					
Net Interest Margin	12.6%	12.3%	15.8%	30	-320
ROAA	3.2%	2.5%	3.9%	80	-70
ROAE	34.1%	28.0%	42.3%	610	-820
NPLs / Private financing (%)	4.0%	3.9%	3.8%	10	20
Regulatory Capital / RWA (%)	14.4%	14.1%	13.4%	30	100

MACRO VS. GALICIA

Both banks enjoy a healthy asset quality, strong franchise, liquidity and capital ratios, and have showed strong resilience to the significant deterioration in the local economy.

Although Galicia has a larger balance sheet and greater ROAE, MACRO looks more attractive assuming that can better absorb the economic deceleration given its stronger asset quality and capitalization.

2Q14 Ratios	Galicia	BMA
Solvency = sh eq/total liab	9.4%	12.3%
Liquidity = liquid assets/total assets	25%	53%
Liquidity II = (cash+gov&private sec)/total deposits	40.1%	3.5%
Leverage = total liab/sh eq	10.7x	6.3x
Efficiency = cost/income ratio	55.6%	51.5%
Capitalization = equity/total assets	8.6%	13.6%
Asset quality = NPL/total assets	4.0%	2.0%
Profitability = ROAE	34.1%	28.8%
Profitability = ROAA	3.2%	4.3%
Loan/deposit ratio	104.0%	80.0%
Net Interest Margin (NIM)	12.6%	14.7%
Capital Ratio	14.4%	23.2%

Going forward, both banks will face a challenging 2H14 and 1Q15. In case of Galicia, its high sensitivity to a further increase in inflation rates and GDP deceleration given its substantial exposure to credit cards, documents and personal loans could increase NPLs and reduce profitability. In addition, Galicia´s lower solvency and higher leverage (when compared to Macro) could deteriorate its capital base in the short to medium to term.

In the case of BMA, headwinds could come from exposure to personal loans and SMEs. However, as much as 88% of the personal loan portfolio is backed by payrolls making it more resilient to asset deterioration when compared to Galicia. Nevertheless, loan growth has not been as strong as Galicia´s resulting in a potential lower profitability - as evidenced by 2Q14 results. In terms of capitalization, BMA shows a stronger capital ratio than Galicia.

The chart below compares the most relevant metrics of the 2 banks (x: better positioned, -: worse positioned).

BANKS METRICS	BMA	Galicia
Asset Quality	x	-
Capitalization	x	-
Profitability	-	x
Liquidity	x	x
Deposit Diversification	-	-
Loan Diversification	-	-
Government Exposure	-	x

THE BONDS:

Ticker	Coupon (%)	Currency	Issued/ Outstanding	Mid Px	YTM (%)	Duration	Principal Amortization	Callable	Rating (M / F / S)	Maturity Date
Galiar19*	11.00	US$	218 /218	106.50	14.20	3.50	Bullet	yes	Caa2/ - / -	1-Jan-19
Galiar18	8.75	US$	300 /300	98.250	9.3	3.00	Bullet	yes	Caa1/CCC-/ -	4-May-18
Galiar17	9.00	US$	200 /200	99.375	9.5	1.20	Amortizing	yes	Caa1/CCC-/ -	28-Jan-17
Bmaar36*	9.75	US$	149 /149	91.530	9.1	9.70	Bullet	yes	Ca/CC/ -	18-Dec-36
Bmaar17	8.50	US$	149 /106	99.380	9.6	1.50	Bullet	yes	Caa1/CCC/ -	1-Feb-17

*Subordinated, computed as Tier 2 capi-
tal

Galicia subordinated notes due 2019 are issued by Banco Galicia y Buenos Aires S.A., which are not guaranteed by the bank and are only senior to equity holders . **The notes are callable at 100% in any time** but (i) subject to prior total payment of other senior bonds and, (ii) capitalization should be equal or greater than the capital requirements established by the BCRA. Interests are paid in part in cash and in PIK. Interest on the notes accrued 6% until January 1st 2014 and 11% thereafter until January 1st 2019. In addition, the notes accrued 5% in PIK. Interests are paid semiannually every January 1st and July 1st. Notes are under NY law.

Macro subordinated notes due 2036 are issued by Banco Macro S.A. and are only senior to equity holders. **The notes are callable at 100% on December 18th 2016 or at any interest payment date thereafter**. Interest on the notes accrued 9.75% until December 18th 2016 and thereafter at an annual rate equal to the six-month LIBOR plus 7.11%. Interests are paid semiannually every June 18th and December 18th. Notes are under NY law.

Galicia (TN) senior unsecured notes due 2017 are issued by Tarjeta Naranja S.A and are senior, unsubordinated and unsecured to the issuer**. The notes are callable at 100% before January 28th 2014 (at least US$ 100M outstanding in principal) and at 109% after January 28th 2014, at 104.5% after January 28th 2015 and at 102.25% after January 28th 2016**. The notes have a change of control clause at 101%. In addition the notes amortize 33.33% in January 28th 2015, 33.33% in January 28th 2016 and the remainder in January 28th 2017. Notes are under NY law.

Galicia senior unsecured notes due 2018 are issued by Banco Galicia y Buenos Aires S.A. **The notes are callable at 104.375% on 2015, at 102.88 on 2016 and at 100% thereafter**. Interest on the notes accrued 8.75%. Interest are paid semiannually every May 4th and November 4th. Notes are under NY law.

Macro senior unsecured notes due 2017 are issued by Banco Macro S.A. **The notes are callable at 100% on December 18th 2016 or at any interest payment date thereafter**. Interest on the notes accrued 8.75%. Interests are paid semiannually every June 18th and December 18th. Notes are under NY law.

RECOMMENDATION:

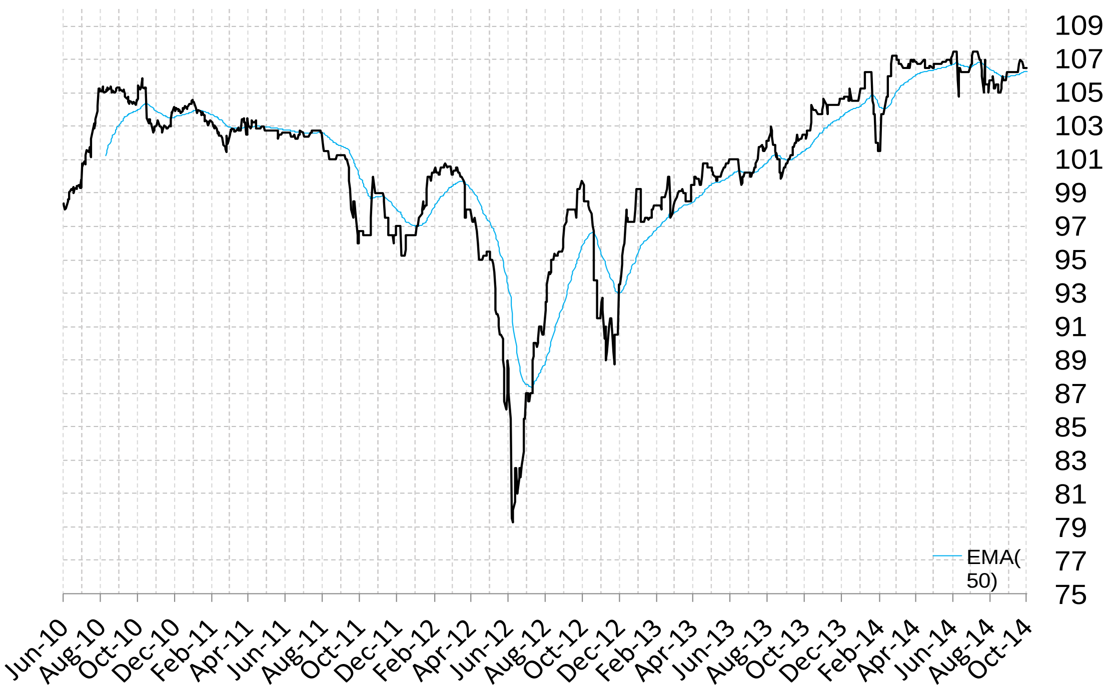
We believe that at current levels, **GALIAR19 more than compensates the risk embedded in its subordinated structure (Tier 2 capital)**. Moreover, at current prices, Galicia 19´s call option at par is a risk that has been losing strength. The bonds are considered tier 2 capital, so in order to call the notes, the bank would need to capitalize to obtain an excess over the required capital. The excess over required Capital as of 2Q14 amounted to AR$ 2103 million almost matching the Tier 2 capital (composed by the GALIAR19) that amounted to AR$ 1912 million. Considering the possible deterioration in asset quality and the current limited access to capital markets, we consider it's difficult for Galicia to call the notes.

In addition**, GALIAR19 looks attractive at 470bps over GALIAR18, since the average historical spread is 378bps**. Therefore the additional 470bps is closer to the all-time high historical spread of 600bps. Moreover, under a normalization of the sovereign debt issue, the bond should tighten by at least 100bps. Meanwhile, the carry is very attractive (15%) although we see the high dollar value as a negative.

GRAPH SPREAD GALIAR19 OVER GALIAR18

From a technical analysis, we not see a significant upside from current levels but find the carry very attractive. In addition, we see a strong support at 104.5 making it the stop-loss level in case the bonds start to lose momentum and the macro situation worsens.

GRAPH PRICE GALIAR19



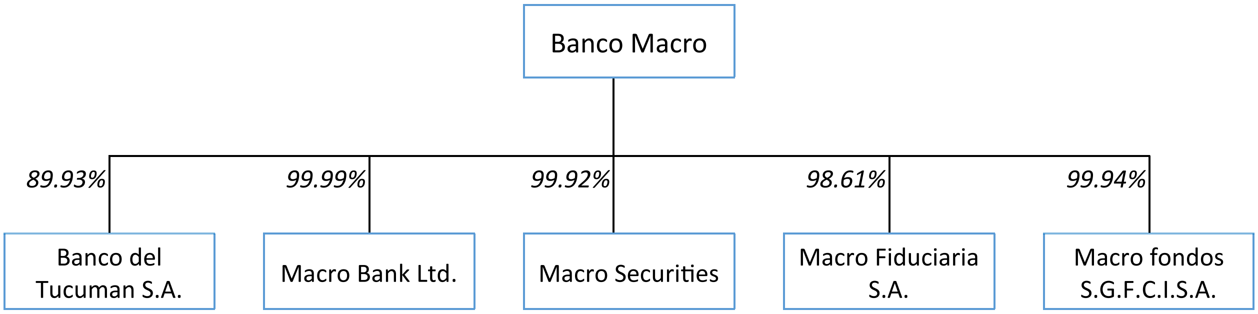
Risks to our recommendation includes severe downturn in the local economy boosting NPLs and reducing liquidity. If such case materializes, we will consider switching from GALIAR19 to BMAAR17 as a more defensive strategy which yields 9.6% and has a short duration of 1.5. Considering the low amount outstanding of BMAAR17 (which translates into low liquidity of the bond), an alternative “more defensive” play would be to switch to the non-subordinated GALIAR17 which yields 9.6% and have a duration of 1.2.

APPENDIX I

ABOUT THE BANKS

BANCO MACRO (BMAAR)

Banco Macro S.A. (BMA) was created in 1977 as a non-banking financial institution. In 1988 it received the authorization to operate as a commercial bank and subsequently, as a result of a merger process with other entities during the19 90s and 2000s, it became a traditional one-stop shop bank. Currently BMA operates in all business segments, focusing on low - middle income retail clients and SME corporates. As of December 2013, BMA was the third largest private bank in terms of assets, loans and deposits, with a market share of 7.7% in loans and 6.9% in deposits. As of 2Q 2014, total assets amounted to AR$ 72.8 billion.



BMA is listed on the Buenos Aires stock exchange (since 1994) and NYSE (1996) with a market capitalization of approximately US$ 2.2 billion. BMA market strategy was focused on taking advantage of the acquisition of provincial banks (financial agent in four provinces) during the 90s which provided a source of low cost funding and fee income generation while leveraging cross selling capabilities with companies operating in regional economies. In addition, sound risk management standards and a robust operational efficiency helped to drive shareholder value and new opportunities.

Ownership: Argentina´s State pension fund (ANSES) is the main shareholder with a 31% stake, followed by Jorge Brito with 19.87% and Delfin Carballo with 18.79%. The rest floats in the local stock exchange (8.74%) and NYSE (21.63%). Although the government holds the larger stake, the bank is managed and controlled by the Brito and Carballo families which are the founders of the bank with more than 40 years in the industry. The Brito family is also involved in the real estate business and agribusiness (Vizora and Inversora Juramento) with more than 10 years of experience.

MOST RECENT FINANCIALS: BMAAR 2Q14

Profitability declined QoQ: BMA net income totaled AR$ 732.6 million in 2Q14. This result was 38% lower than the AR$ 1.2 billion reported in the 1Q14 but 59% higher than the AR$ 460.4 million posted in the 2Q13. In 2Q14, return on average equity (ROAE) and the return on average assets (ROAA) were 28.8% and 4.3%, respectively. ROAE and ROAA were 50.4% and 7.6% in 1Q14. Higher inflation and slowdown of the economic activity led to lower NII (-30% QoQ) impacting on net income. As of 2Q14, NIM was 14.7%, lower than the 15.7% posted in 1Q14 and larger than the 12.3% posted in 2Q13. The operating result for 2Q14 was AR$ 1.1 billion which decreased 43% in comparison with 1Q14 but rose 48% YoY.

Expenses rose due to salary adjustments: In 2Q14 BMA administrative expenses reached AR$ 1.3 billion, 7% higher than the previous quarter mainly due to higher personnel expenses and taxes. Administrative expenses increased 31% YoY due to an increase in personnel expenses (mainly higher salaries) and other operating expenses. As of June 2014, the accumulated efficiency ratio reached 44%, improving from the 52.8% posted in 2Q13, but weaker than the 38% posted in 1Q14.

Loan growth slightly declined QoQ: In 2Q14, BMA financing to the private sector slightly decreased QoQ totaling AR$ 39.9 billion, decreasing 0.5%. Among commercial loans, documents and others decreased 6% and 4% QoQ, respectively, while pledge loans (mainly productive investments loans with pledge guarantees) presented the best performance followed by overdrafts which grew 7% and 2% QoQ, respectively. Among consumer loans, credit cards loans and personal loans rose 2% and 1% QoQ, respectively, far below the growth achieved during 2013. Total loan portfolio growth was flat QoQ but increased 17% YoY, below annual inflation growth.

Liquidity improved based on Government notes: In 2Q14, BMA experienced an increase in LEBAC/ NOBAC own portfolio of 55%, an increase in Cash of 6% and an increase of 204% of Call. In 2Q14 BMA liquid assets to total deposits ratio reached 44.3%.

Asset quality also deteriorated: In 2Q14, BMA non-performing loans to total financing ratio was 2.02% and the coverage ratio reached 133.07%. This metrics were weaker that the ones posted on 1Q14 which were 1.9% and 137.2% in 1Q14. Asset quality dynamics behave in line with slower economic activity that can still cause weak demand for credit and deterioration in credit quality.

BMA total deposits grew 9% QoQ, totaling AR$ 51.3 billion and representing 81% of the Bank's total liabilities. Private sector deposits grew 7% QoQ.

Solvency showed progress: BMA continued showing a strong solvency ratio, with excess capital of AR$ 5.1 billion (23.2% capitalization ratio), compared to 22.7% in 1Q14 and 21.7% in 2Q13.

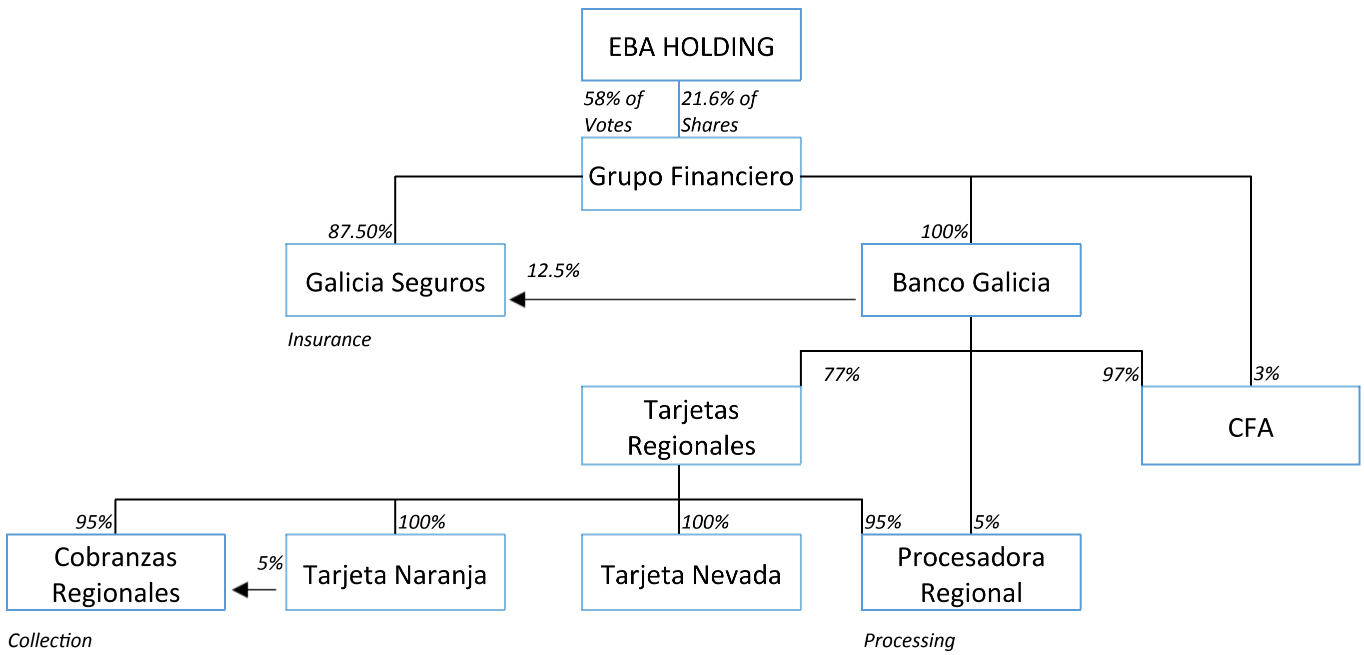
BANCO GALICIA (GALIAR)

Banco Galicia y Buenos Aires S.A. (Galicia) was created in 1905 as a banking financial institution. Galicia is a full service bank, focusing on retail banking with strong presence on credit cards and SME companies. As of December 2013, Galicia was the second largest private bank in terms of loans and deposits, with a market share of 8.2% in loans and 9.1% in deposits. As of 2Q 2014, total assets amounted to AR$ 95.4 billion.

Galicia is listed on the Buenos Aires stock exchange (since 1907) and NASDAQ (1993) with a market capitalization of approximately US$ 1.74 billion. In the year 2000, Galicia shares were exchanged for those of Grupo Financiero Galicia (GFG), its holding company. Historically, Galicia´s strategy was to service middle income clients and SMEs. However, during the 2000s the company acquired two consumer finance companies (CFA and Tarjetas Regionales (TR)) to take advantage of the growing demand from the lower income population (including outside of Buenos Aires). This growth was driven by the economic model implemented by the current government.

Ownership:

Galicia is 100% owned by GFG, the financial holding company of the group, which also owns 87.5% of Galicia Seguros and 3% of CFA (Compañia Finaciera Argentina). GFG has Class A and Class B shares. Class A shares are 100% owned by the founding family, while Class B are traded in the stock exchange are divided into the public (31.8%), the families (12.1%), ANSES (25.9%), and others. This translates into a total ownership of 31.1% by EBA holding S.A. (owned by founding families Escasany, Braun and Ayerza), 20.3% by ANSES, and the rest by minority holders. In addition, EBA Holding controls 58% of the votes and has one member in the board of directors of the bank and five members on the board of GFG.



MOST RECENT FINANCIALS: GALIAR 2Q14

Profitability declined QoQ: Galicia net income totaled AR$ 673 million in 2Q14. This result was 13% lower than the AR$ 774 million reported in the 1Q14 but 76% higher than the AR$ 383 million posted in the 2Q13. In 2Q14, return on average equity (ROAE) and the return on average assets (ROAA) were 34.1% and 3.2%, respectively. ROAE and ROAA were 42% and 3.9% in 1Q14. Slowdown of the economic activity and FX variations led to lower NII (-13.6% QoQ) impacting on net income. As of 2Q14, NIM was 12.6%, lower than the 15.8% posted in 1Q14 and larger than the 12.3% posted in 2Q13. The average yield on Interest bearing liabilities QoQ increased 229bps. The operating result for 2Q14 was AR$ 898 million which decreased 26% in comparison with 1Q14 but rose 68% YoY.

Expenses rose below inflation levels: In 2Q14 Galicia administrative expenses reached AR$ 2210 billion, 11% higher than the previous quarter mainly due to an increase in costs of services provided by

Loan growth increased QoQ: In 2Q14, Galicia financing to the private sector increased QoQ totaling AR$ 61.4 billion, increasing 5.3%. Only SMEs loans decreased 7% QoQ, respectively, while Large Corporations loans presented the best performance growing 35% followed by Individuals loans which grow 5% QoQ. Net loan portfolio grow 5.3% QoQ and increased 21.7%% YoY, below annual inflation growth.

Liquidity improved: In 2Q14, Galicia experienced an increase in LEBAC/NOBAC own portfolio of 32%, and an increase in Cash of 3.2%. In 2Q14 Galicia liquid assets to total deposits ratio reached 40.11% compared to 35.4% in 1Q14 and 25.6% in 2Q13. This increase was due to a lower credit-demand growth rate as compared to the deposits growth rate.

Asset quality deteriorated: In 2Q14, Galicia non-performing loans to private financing ratio was 4.03% and the coverage ratio reached 101.74%. These metrics were weaker that the ones posted on 1Q14 which were 3.79% and 107.28% in 1Q14. Deterioration in credit quality was a result of an increase in the level of NPLs in the consumer portfolio.
Galicia total deposits grew 6.5% QoQ, totaling AR$ 58.7 billion and representing 67% of the Bank's total liabilities. Private sector deposits grew 7% QoQ.

Solvency showed some progress: BGAL continued showing an acceptable solvency ratio, with excess capital of AR$ 2.1 billion (14.4% capitalization ratio), compared to 13.4% in 1Q14 and 14.06% in 2Q13.

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