



CFA Institute

CFA Institute Research Challenge

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Grupo Financiero Galicia S.A.



Ticker: GGAL US
Current Price: \$ 57.14
Target Price: \$ 64.43

Recommendation: HOLD
Valuation Date: October 25th 2017
Upside: 12.76%

Stock Exchange: NASDAQ
Sector: Banking
Industry: Financial Services

STOCK PRICE \$57.14

TARGET PRICE \$64.43

Expected Stock Price

DCF	\$	66,16
P/E	\$	60,40
70% DCF - 30% P/E	\$	64,43

Table 1 - Source: Team Estimates

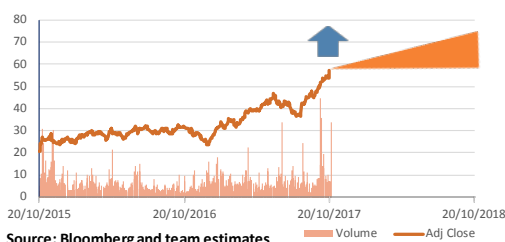


Figure 1 - Stock Price Over Time - Source Bloomberg

Market Profile

52 Week	23.23 - 58.61
Market Cap	6.52 B
Beta (5Y monthly)	1.16
Free Float	114.67 M
Div. Yield	0.21%

Table 2 - Source Team Estimates

DCF

Enterprise Value	10.955
Equity (MM)	9.328
Outstanding shares (MM)	141
Stock Price	66,16

Table 3 - Team Estimates

Multiple Valuation - P/E

Average P/E	14,03
Net income	\$ 607
Mkt Cap	\$ 8.517
Shares outstanding	141
Stock price	\$ 60,40

Table 4 - Team Estimates

SUMMARY

Grupo Financiero Galicia S.A. is a Financial Services holding company organized under the laws of Argentina. Banking operations are between the five largest in Argentina and it provides various financial products and services through its subsidiaries, like Banking Services, Regional Credit Cards, CFA Personal Loans, Insurance and others.

VALUATION OUTCOME AND RECOMMENDATION

We issue a HOLD recommendation on GGAL with a one year target price of USD 64.43. Our recommendation takes into account the fact that much of the upside potential value has been recently capitalized in the price since the public offering of new shares, and the expected upside rate of return of 12.76% is consistent with our estimation of cost of equity for shareholders. For those investor that are willing to take more risks, given that GGAL options are to some extent liquid, we suggest a covered call strategy which would perfectly fit on our analysis. Our recommendation lays on the following three main reasons.

MAIN REASONS

WHY ARGENTINA?

The macroeconomic variables of the country are expected to converge to LATAM region. In this way, since the start of the new administration led by Mauricio Macri in December 2015, the country has been in a period of economic normalization, because of the unification of the exchange rate, the agreement with international creditors and the slowdown of inflation, among other factors, all of which lead to a persistent reduction of the country risk and growth in GDP.

WHY BANKING SECTOR?

We are expecting a significant growth in bank loans and deposits over GDP, converging to the region. In fact, Argentina's banking system is a lagger in that respect. Additionally, the Central Bank of Argentina promotes monetary stability by fostering a systematic and sustainable decrease in the inflation rate which will lead to better financial conditions and a reduction in interest rates, reinforcing our view of strong credit expansion.

WHY GGAL?

We believe Grupo Financiero Galicia's high market participation in financial intermediation, credit cards and consumer finance businesses leaves it well positioned to benefit from consumer credit growth in the coming years. We expect that, under proper management, the holding has a unique opportunity to perform far over its competitors in the loans market.

This view is based on the sustainable business model developed all over the country with a well-known brand, it being the financial institution with the highest number of clients and branches in Argentina.

BUSINESS DESCRIPTION THE HOLDING

Grupo Financiero Galicia S.A. is a Financial Services holding company organized under the laws of Argentina. Its Banking operations are between the five largest in the country and provides various financial products and services through its subsidiaries, such Banking Services, Regional Credit Cards, CFA Personal Loans, Insurance and others.

The group is controlled by EBA Holding, a public limited company incorporated in Argentina, whose shares are owned by the Escasany, Ayerza and Braun families. These families are the majority shareholders (directly or indirectly) and holders of 100% of the Class A shares of Grupo Galicia, through EBA Holding, which is equivalent to 21.6% of the share capital and 58.0% of the votes.

The consolidated Group employs 11,771 workers and has 580 client contact points all over the country, including 279 bank branches, 207 regional credit card branches and 94 CFA client contact points between branches and offices. The group's total clients amount above 9 M and has shown constant growth in the last few years.

The Group's main subsidiary is Banco Galicia. The Bank, simultaneously, is a shareholder of Galicia Seguros (12.5%) and, Galicia Administradora de Fondos (5%), and holds stakes in Tarjetas Regionales (77%) and Compañía Financiera Argentina (CFA - 97%), although this last company is in the process of being sold. At the time, the group also has control of the other 87.5% of Galicia Seguros and the remaining 95% of Galicia Administradora de Fondos.

Its main net revenues are provided by Financial Intermediation (56%), followed by Credit Cards (32%), Personal Loans (6%), Investment services (1%) and Insurance (1%).

BUSINESS UNITS

Banco Galicia is a leading provider of financial services in Argentina and the most important subsidiary of the Group. According to the Argentine Central Bank, as of May 31, 2017, the bank was ranked second in terms of assets, deposits and loan portfolio within private-sector banks in Argentina. The Bank's market shares of private sector deposits and loans to the private sector were 9.51% and 10.38%, respectively, as of June 30, 2017. At the same time, Banco Galicia and its subsidiaries had, on a consolidated basis, total assets of ARS 250,395 M (USD 15,085.3 M), total loans of ARS 159,923 M (USD 9,634.7 M), total deposits of ARS 158,211 M (USD 9,531.6 M), and its shareholders' equity amounted to ARS 22,049 M (USD 1,328.3 M).

Tarjetas Regionales is the largest non-bank credit card issuer in Argentina and one of the largest in Latin America, in each case, based on the number of credit cards issued as of June 30, 2017. This company, which is the second in importance of the group, includes Tarjeta Naranja and Tarjeta Nevada, and it is one of the largest credit card processors in Argentina. As of June 30, 2017, Tarjetas Regionales market share of issued credit cards in Argentina was approximately 17.9% and had more than 3.5 M active accounts, 9.5 M credit cards issued and approximately 250,000 affiliated stores.

Finally, the group owns Galicia Seguros and Galicia Administradora de Fondos, which represent a smaller percentage of total revenues. However, the latter leads the market for mutual funds (14.1%), and is expected to grow strongly according to the market.

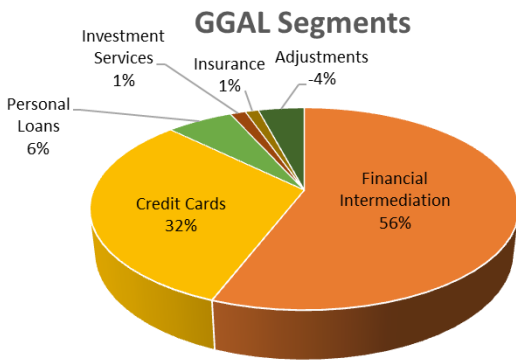


Figure 2 - Source Bloomberg

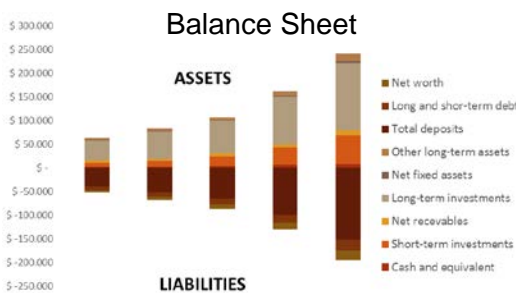


Figure 3 - Source: Bloomberg

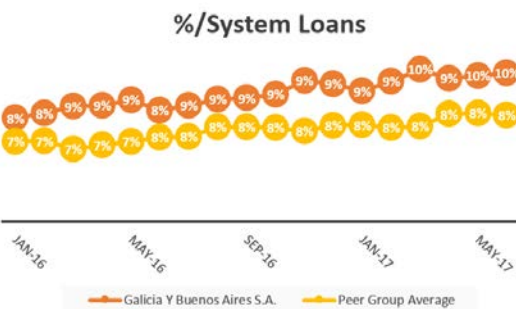


Figure 4 - Source: BCRA

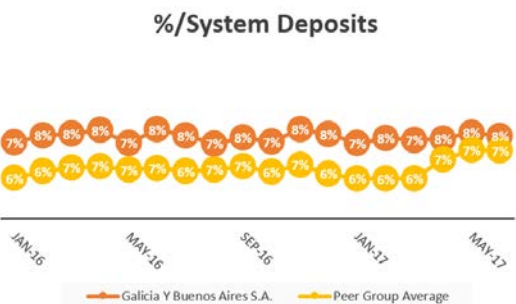


Figure 5 - Source: BCRA

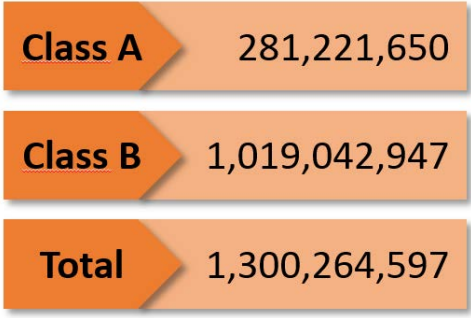


Figure 6 - Shares Outstanding - Source: Company Data

SHAREHOLDER	% OF SHARES	% OF VOTES
The Bank of New York Mellon	35.6	19.1
EBA Holding S.A.	21.6	58
ANSES	20.3	10.9
EBA Holding Shareholders	9.6	5.1

Table 5 - Source: Company Data

BOARD COMPOSITION	
Lic. Eduardo J. Escasany	President
Lic. Pablo Gutiérrez	Vice-president
Lic. Abel Ayerza	Director
Ing. Federico Braun	Director
Dr. C. Enrique Martín	Director
Lic Pedro A. Richards	Director
Cdor. Daniel A. Llambías	Director
Sr. Silvestre Vila Moret	Director
Cdor. Antonio R. Garcés	Director

Table 6 - Source: Company Data

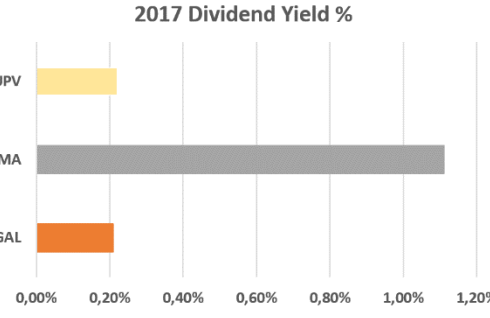


Figure 7 - Source: Finviz

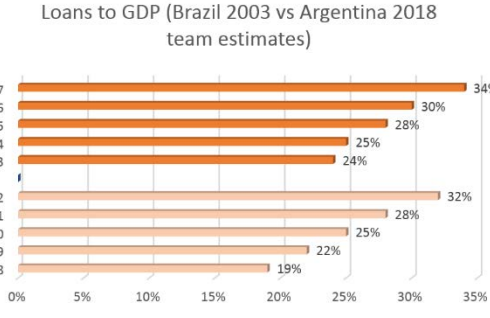


Figure 8 - Source: Morgan Stanley

CFA SALE PENDING APPROVAL

On January 12, 2017, Grupo Galicia accepted an offer to sell 100% of Banco Galicia's shares of Compañía Financiera Argentina S.A. and Cobranzas y Servicios S.A. The closing of the transaction is subject to the fulfillment of the conditions contained in the offer, including the prior approval of the Argentine Central Bank, which is still pending.

We expect the transaction to fit into the Banco Galicia's business strategy because it shall: improve Banco Galicia's regulatory capital base, reallocate capital in order to provide credit support to priority segments, and be in line with the overall growth of the Argentine economy.

CORPORATE GOVERNANCE MAIN SHAREHOLDERS

As of June 30, 2017, the capital structure was made up of Class A ordinary shares, each of which grants the right to five votes and Class B ordinary shares, each of which grants the right to one vote. As of June 30, 2017, there were 1,300,264,597 shares outstanding composed of 281,221,650 Class A ordinary shares and 1,019,042,947 Class B ordinary shares.

The controlling shareholders are members of the Escasany, Ayerza and Braun families and the Fundación Banco de Galicia y Buenos Aires, who gained ownership of 100% of Class A ordinary shares through EBA Holding, representing 21.6% of the total outstanding shares and 58% of total votes.

BOARD OF DIRECTORS

The board is integrated by at least three and a maximum of nine members. The board meets at least once a month and whenever required by any of the directors or the supervisory body. By December 2016 it was formed by eight members, **of whom three were independent, which shall give a fresh view to the business strategy.**

The board approves and controls the annual budget and the investment policies have to be approved by them. For every meeting, all the relevant information is available to all members in advance and the general manager and the financial administrative manager are at the disposal of the Directors.

DIVIDENDS POLICY

After analyzing the last fifteen years of dividends, we found that in absolute terms they were relatively low. In addition, as it is shown in figure 7, we compared dividend yields among peers arriving to the same results. For that reason, we did not find it appropriate to use a DDM to value the stock price.

LATAM CONVERGENCE

Since Mauricio Macri became the new President of Argentina, the market has been bullish betting on economic normalization. The interest rate spread between Argentina and Brazil saw a powerful compression, expecting the economy and the banking system to enjoy a multi-year period of continuous growth. **Brazilian's macro-economic indicators and its banking system in 2003 show many similarities with current local standpoint:** relatively low banking penetration (24% in Brazil back then vs 14% in Argentina), high interest rates (25% in Brazil vs 26% in Argentina) and high ROEs (20/25% in Brazil vs 25/30% in Argentina), are some of the similar starting points that strengthen our view.

HISTORICAL ARGENTINA COUNTRY RISK

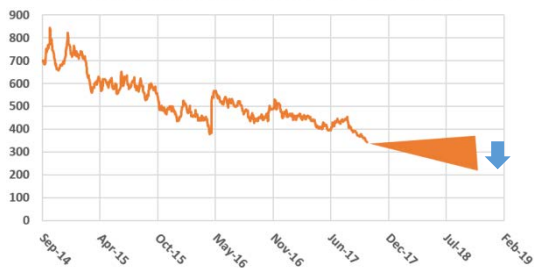


Figure 9 - Source: Ambito Financiero

As % of GDP

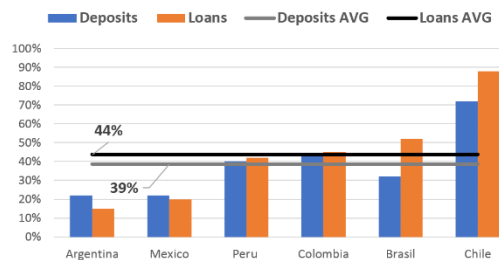
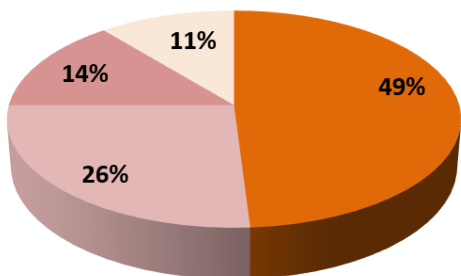


Figure 10 - Source: Central Banks



Figure 11 - Source: Financial Times



- Medium Income
- Low Income
- High Income
- Prof. And Self-employed

Figure 12 - GGAL Clients - Source: Company Data

Domestic credit to private sector (% of GDP)

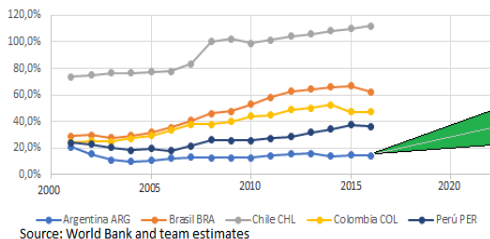


Figure 13 - Source: World Bank

Additionally, banks in Argentina have very short term loans as did Brazilian banks back in 2003. The extension of loans duration also helped the Brazilian bank system to reduce asset sensitivity. This means there is positive correlation between net interest margin and local interest rates. However, there is room for the expansion of deposits and loans, which still let us be bullish in the coming years.

COUNTRY OVERVIEW

Presidential elections in late 2015 led to a significant change in Argentina's economic policy. The country is currently in a period of political and economic transition, leading to a reduction of the country risk.

The new administration has implemented a set of measures, such as the INDEC regularization, the unification of the exchange rate, the agreements with international creditors, the normalization of the import regime, the fiscal deficit management, the correction of monetary imbalances and the inflation targeting program by the BCRA. However, the Macri's administration does not hold majority in the Argentina's Congress. For that reason, though it might be difficult to adopt some of the reforms listed above, the fact that Cambiemos emerged strengthened in the past midterm elections may provide room for Congress support, leaving less (though positive) uncertainty with respect to the ability of the government to implement further reforms.

Nevertheless, the market consensus for Argentina's GDP growth is +2.8% in 2017 and +3% in 2018. As economic recovery plays out, credit and banks expansion are likely to materialize, as they are positively correlated to GDP.

Another factor to consider is that MSCI Argentina will possibly be recategorized from the Frontier index to be included in the EM index, with the formal announcement taking place next year. If so, inflows into this asset class should provide strong support for bank stocks. Banks should benefit handsomely as they represent by far the largest portion of the MSC index.

When analyzing some relevant statistics about the country that may be relevant for the financial system, we can see that 56% of the population is of middle and high income, and far higher than the regional average. Additionally, according to the World Bank data, the Gini index, which measures inequality, is the lowest, when compared to countries such as Peru, Colombia, Brazil and Chile.

INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

The banking industry in Argentina is a highly fragmented one and it is expected that the largest banks will increase their market share to support growth through the purchase of small banks. Nowadays, **Argentina has 78 banks, while there are 24 in Colombia, 23 in Chile and 17 in Peru.** The top local top five banks concentrate 58% of deposits and 51% of loans, compared to 70%-75% in Brazil, Chile, Colombia and Mexico.

DOMESTIC CREDIT TO PRIVATE SECTOR BY BANKS

In the last years domestic credits showed a relative underperformance versus the region. Although in the last few years the tendency was relatively flat, the market is expecting a pronounced progress from now on, due to the new environment. One of the reasons we expect such growth in domestic credit is due to the efforts of the Central Bank and AFIP to reach a higher level of financial intermediation in the economy. Moreover, another fact to consider is

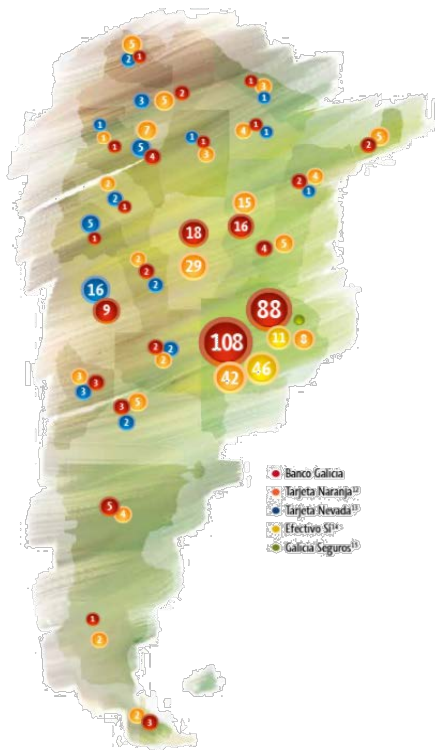


Figure 14 - Branches Distribution - Source: Company Data

the current government determination to reduce informality through different mechanisms such as law 27,260 (tax amnesty) and the labor reform that is currently in the political agenda.

IFRS IMPLEMENTATION

The local Central Bank informed the road map for the convergence of the informative and accounting system to the IFRS, which will be mandatory as of January 2018. Hence, there are going to be some changes in their accounting, especially in equity. In this way, the Argentinian financial sector will narrow their discount with respect to its LATAM counterparts.

STRONG BRAND RECOGNITION

GGAL has a nationwide presence with 581 branches located in each of Argentina’s 23 provinces and in the Autonomous City of Buenos Aires, with more than 9 million clients overall. The Bank has an important participation among individual clients, small and medium enterprise segments, which is headed to a potential growth in the coming years.

QUIERO!

A fidelity program that has reached 1 million subscribed costumers in December 2016. According to the bank authorities, a customer who uses Quiero! consumes 2.5 times more than one that does not, presenting higher levels of cross-selling and doubling its permanence in the bank. In addition, it is positioned as the program with the highest customer awareness in the industry.

EMINENT

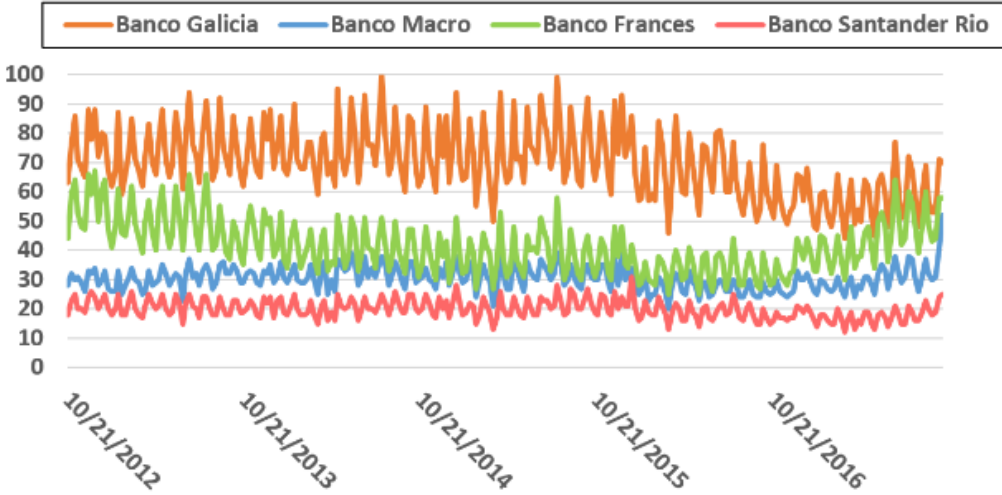
This program is oriented to high-income customers. In 2016 it showed a significant growth in members (28%). These customers are the ones that leave most benefits to the banks because they spend more with their debit/credit cards and own higher levels of deposits.

SOCIAL MEDIA PRESENCE

Considering that social media is a key driver in current businesses, we assessed GGAL’s mentions and searches on Google and we reviewed Twitter analytics.



Figure 15 - Twitter Profile - Source: Twitter



We have identified that Banco Galicia is the most searched bank in Argentina, compared with its peers (Figure 16). Our analysis suggests that GGAL leads searches in 13 of 23 provinces, including Buenos Aires, the main financial district and most populated province.

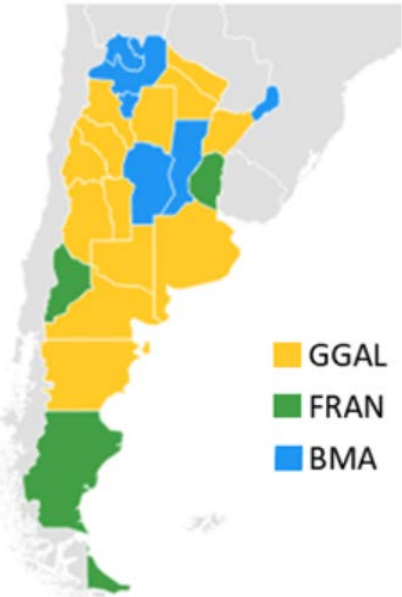


Figure 16 - Google Searches - Source: Google

In the case of Twitter analytics, we have found that it is the bank with the greatest amount of followers and have a positive social sentiment as shown in appendix 6.

INVESTMENT SUMMARY

We issue a **HOLD** recommendation on **GGAL** with a one year target price of USD **64.43** based on a 70%-30% mix of Discounted Free Cash Flow to Firm method and P/E multiple analysis. The mentioned expected price, offers an 12.76% upside in the value of the share for the period. In addition, as the expected upside compared to the cost of equity is similar, we recommend a **covered call strategy** which would perfectly fit on our positive analysis.

POSITIVE PROSPECT FOR MACROECONOMIC VARIABLES

Argentina is showing a strong recovery from past unfavorable conditions to develop investments and to consolidate the banking industry. It's expected to gradually increase its GDP in the short term, estimated at 3%. During this administration there has been a stabilization of main economic variables, which has lead to a more stable and predictable scenario. Regaining international confidence in Argentina's commitment towards commerce and business development was a key factor in improving market conditions. Specifically in regards to the banking industry, the loans market is expected to have an exponential growth (reaching average levels of loans over GDP in the LATAM region), which represents a great opportunity for banks in Argentina. Aligned with this, Grupo Financiero Galicia is an interesting prospect for investment prior to the boom of credit loans, however we believe the stock price is already reflecting part of the potential growth. In appendix 6, we have carried out a social sentiment analysis on twitter and it is easy to see that the market is already pricing a large proportion of the positive aspects that we are mentioning. In this sense we do not recommend a strong buy since the potential upside is not justified by the volatility it could involve.

GREAT SECTOR, GREATER COMPANY PROSPECT

Although there are other interesting prospects such as Banco Macro and Banco Supervielle, we consider that Galicia has a great potential. This firm has its main activities based on credit cards, and has a strong presence throughout the entire country. It's both an opportunity and a challenge to expand loan services, which is the product that may have a considerable growth in the short term. We expect that, under proper management, the holding has the opportunity to grow in the market share of loans, obtaining higher revenues.

HISTORICAL PERFORMANCE

Figure 19 shows the evolution of GGAL price versus a market cap weighted peer Index. From we can see, GGAL had a significant superior historical performance.

COVERED CALL STRATEGY

After our valuation, we determine a target price of \$64.43. The expected return of approximately 13% is similar to our expected cost of equity, so for those investors willing to further capitalize we suggest performing a covered call strategy in order to profit form the business opportunity, provided the liquidity of options for this particular stock.

For example, at the stock's option chain of GGAL, we pick a \$60 strike, the three-month call option, with expiration date on January 19, 2018 and sell it for \$1.95 per share. On the figure 20, the possible results are shown.

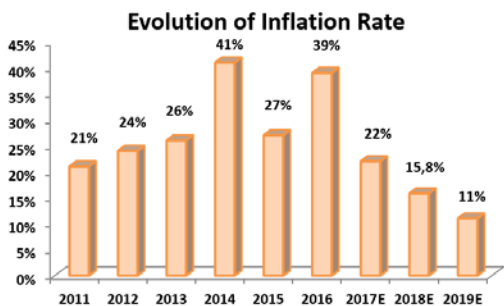


Figure 17 - Source: REM BCRA & Fiel

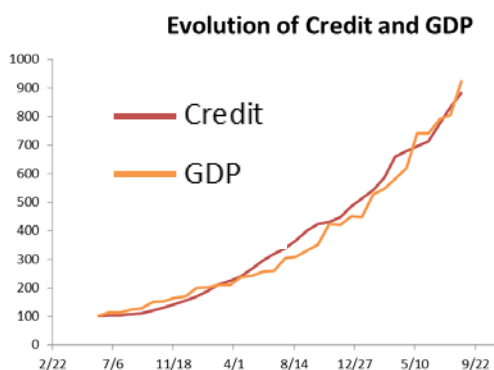


Figure 18 - Source: BCRA & Indec

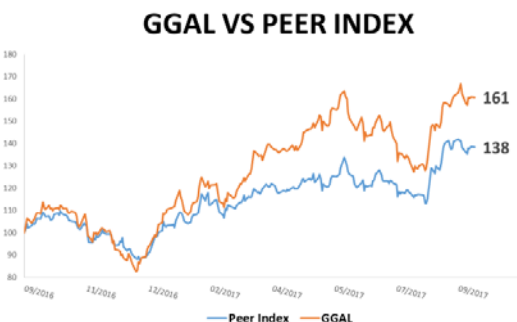


Figure 19 - Source: Reuters

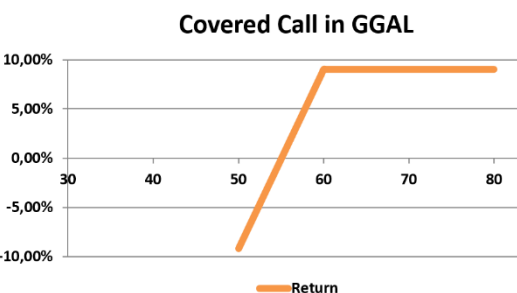


Figure 20 - Team Estimates

DCF

Enterprise Value	10.955
Equity (MM)	9.328
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Table 7 - Source: Team Estimates

Multiple Valuation - P/E

Average P/E	14,03
Net income	\$ 607
Mkt Cap	\$ 8.517
Shares outstanding	141
Stock price	\$ 60,40

Table 8 - Source: Team Estimates

WACC

Estimates	2018	2019	2020	2021	2022
Beta	1,28	1,28	1,28	1,28	1,28
Rf	2,0%	2,5%	3,0%	3,0%	3,0%
Risk Premium	7%	7%	7%	7%	7%
EMBI+	3,5%	3,3%	3,1%	2,9%	2,7%
Re	14%	15%	15%	15%	15%
Rd	9%	9%	9%	9%	9%
Tax Rate	35%	35%	35%	35%	35%
D/A	70%	70%	70%	70%	70%
E/A	30%	30%	30%	30%	30%
WACC	8,4%	8,5%	8,6%	8,5%	8,5%

Table 9 - Source: Team Estimates

EVOLUTION OF LOANS AND INTEREST RATE

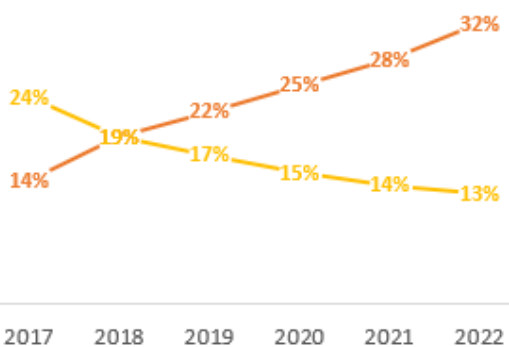


Figure 21 - Source: Team Estimates

INCREASE IN ASSETS

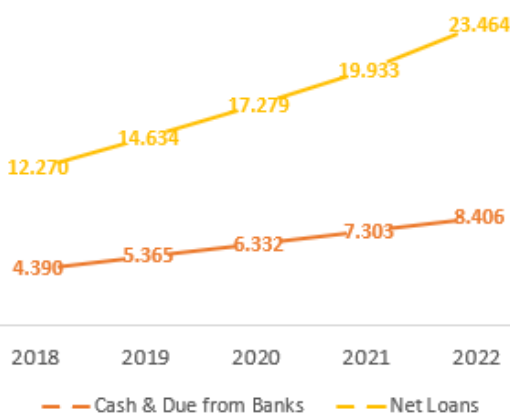


Figure 22 - Source: Team Estimates

In the best scenario, we get a 9% return in only three months. If this happens and the stock price is still under our target, we recommend repeating the strategy, looking forward further upside. In the worst scenario, which according to our estimation has a low probability of occurrence, if the stock price decreases to \$55 we would reach our break-even point and still don't lose any money.

It is very important to remark that GGAL options market have the volume, open interest and different expiration dates that allow us to realize a continuous covered call strategy. **In the case of its peers, this does not hold.**

VALUATION

We assessed the value of the Grupo Galicia's ADR by using both a DCF and a multiple valuation methodology. In the first place, we applied a Free Cash Flow to Firm (FCFF) based on diverse scenarios, which differ basically on 1) estimates of Argentina's GDP; 2) market share assumptions for future years; 3) curves of interest income for future earnings. In the second case, we applied a multiple valuation model, weighing both results to conclude to our recommendation and the final target price.

All cash flows were estimated in USD dollars, and the final price of this approach represents an average between the most certain scenarios. Our DCF model includes forecasts through 2022, computing a terminal value using Argentina's GDP long-term growth rate at 3%. Appendix 7 summarize our DCF.

We take as an assumption that the general revenue of the group is mainly driven by market share, interest income rate and the percentage of the GDP representing loans. As a consequence of a projected slowdown in inflation, interest income rates will decrease. This lower rates would lead to an important growth in bank loans and taking into account the poor volume of credit that Argentina historically had, we expect credit market to double through 2022.

Figure 21 shows this trade-off between the percentage of loans in relation to the gross domestic product and the interest rate evolution. Nevertheless, a consistent GDP increase, will lead to higher incomes. In this way, we expect a 25% increase of the company's interest income for 2022, since the increase in volume will overcome the decrease in interest rates.

Necessarily, to go along with higher revenues and increasing loans, assets such as cash, PP&E and long-term assets should increase, with the exception of short term earning assets. This line of the balance sheet should decrease due to a reduction in LEBACs stock (driven by reduction in interest rates).

With all the assumptions mentioned, we estimated the future income statement, balance sheet and cash flow for 2022, and we calculated the terminal value to obtain enterprise value and therefore the equity value.

ESTIMATION OF WACC

The weighted average cost of capital (WACC) was computed with the usual expression. We have calculated a different WACC for each year under analysis, obtaining five different Kd and Ke. A trade-off is expected between a reduction of EMBI+ during each year, and an increase of risk free rates by the FED, based on FOMC participants' assessments of appropriate monetary policy. We also monitored that this rates are consistent with TIPS bonds prices (more details are shown in Appendix 8). Table 9 shows the calculation of the rates mentioned.

In average, WACC remains stable due to this trade-off and there are no significant variations between each discounted year.

COST OF DEBT AND COST OF EQUITY

To obtain the cost of debt, we calculated the average yield to maturity of the company's USD-denominated bonds, weighed by outstanding amount and achieving a rate cost of debt of 9%. In order to calculate the cost of equity, and considering that main operations are being held in an emerging market, we adjusted CAPM by EMBI+. We assumed a risk free rate of 2% (which increase till 3% in 2020), a risk premium of 7% and a beta of 1.28 for 2018. This leads to a K_e of approximately 15%.

To compare our DCF results with a multiple valuation, we decided to calculate the stock price basing our analysis on P/E multiple. We considered a normalized-average P/E from different banks from LATAM, due to the fact that, macroeconomic factors will lead GGAL to converge towards those levels of multiples. Having made these comments, we obtained an average P/E of 14.03 (lower than the actual GFG's multiple), which results in a stock price of \$ 60.40.

SENSITIVITY ANALYSIS

We developed a sensitivity analysis based on changes to the discount rate and GDP growth. In this case, WACC was allowed to range from 7,6% to 9,6% and GDP growth from 0% to 5%. We found that, in terms of our modeling, WACC is the main driver in variations of stock price.

VALUATION OUTCOME

As we mentioned before, to find a fair value of the target stock price, we take into consideration both approaches: multiples and DCF. Under DCF model, we arrived to a target price of \$66.16. And in the case of multiple analysis, we obtained a target price of \$60.40.

We assigned a 70% ponderation to results obtained in DCF and a 30% to results from relative valuation. The weights come from the fact that we expect to DCF to weigh more than multiples in the final outcome. After concluding our DCF and multiple valuations, and analyzing a sensitivity analysis of relevant assumptions, **our estimation of the 12-month target price is \$64.43.**

FINANCIAL ANALYSIS

SUBSTANTIAL INCREASE OF LOANS AND DEPOSITS

GGAL has shown consistency in improving its volume of loans since 2015. This is a key factor, considering that the credits industry in Argentina has been suffering from low demand in previous years. Loans have increased 26% since 2015, showing a considerably high growth rate, which is aligned with our future estimations.

INCREASING SPREAD MARGINS

Despite interest rate compression, we can observe from previous quarters that the net margin has grown, which is translates into higher profits. This shows in some way, how effective is GGAL in its strategic commercial plan, and its ability to increase revenue in a rates reduction context.

POSITIVE CASH FLOW GENERATION

The company has shown a strong ability to increase cash flow during the last six years. This shows the ability of its management to adapt and grow even in uncertain or unfavorable economic situations. It's one of the main factors that guarantee that our growth estimation is consistent with what has been done in the past.

SPREAD IN ACTIVE AND PASSIVE RATES

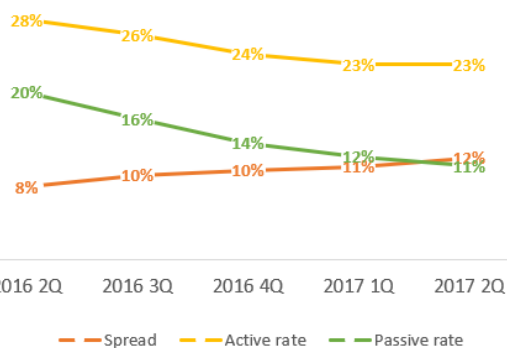


Figure 23 - Source: Team Estimates

		WACC		
		7,60%	8,60%	9,60%
Growth	0%	63,50	63,48	63,47
	1%	64,40	64,39	64,38
	2%	65,30	65,28	65,27
	3%	66,18	66,16	66,15
	4%	67,04	67,02	67,01
	5%	67,88	67,86	67,85

Table 10 - GDP Growth vs WACC Sensitivity analysis- Source: Team Estimates

STRUCTURE

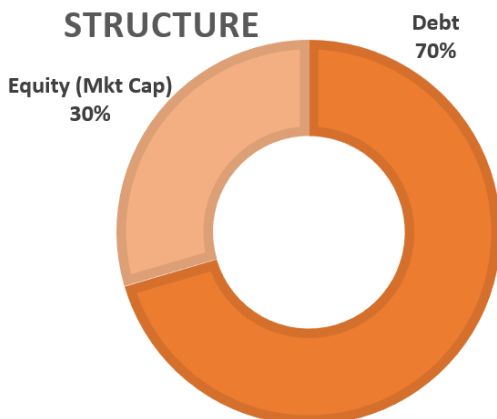


Figure 24 - Source: Company Data

Multiples	GGAL	Peers
P/E	19,22	22,8
P/BV	5,48	1,32
Earnings Growth	33,5	9,11
Sales Growth	33,46	5,69
Price Volatility	6,19	5,31
ROE	33,38	27,13
Liquidity Coverage Ratio	355%	2,6

Table 11 - Source: Reuters & Company Data

EFFICIENCY RATIO



2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

Figure 25 - Source: Company Data

STRONG MULTIPLES COMPARED TO PEERS

As shown in table 11, results are consistent with our HOLD recommendation. In general, the GGAL ratios are more favorable than those of the industry average. With respect to the multiples analysis, different ratios such as the P/E, forward P/E, ROE and ROA for different countries from LATAM and Central America, we can see that Argentinian Banks are at a discount from their counterparts.

Company Name	P/E	ROE	Market Cap(M)	Volatility - 200 days
Grupo Financiero Galicia SA	19,22	31,5%	6596	30,41
Banco Macro SA	20,37	27,8%	9020	32,24
BBVA Banco Frances SA	24,50	24,1%	4575	29,46
Grupo Supervielle SA	17,46	26,3%	1776	29,20
Itau Unibanco Holding SA	12,21	20,0%	84107	34,89
Banco Bradesco SA	11,99	19,2%	66239	36,74
Credicorp Ltd	14,65	27,2%	19632	19,22
Banco de Chile	16,82	19,6%	15113	16,20

Deposits/Loans Over Time



Figure 26 - Source: BCRA

LCR - QUARTERLY EVOLUTION

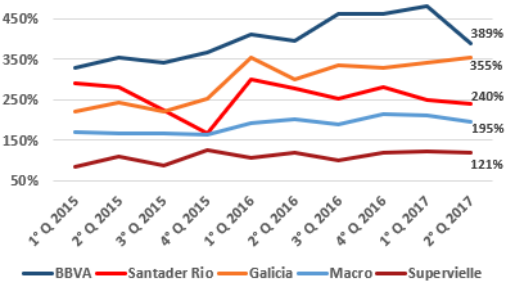


Figure 27 - Source: Market Discipline Report of Peers

EFFICIENCY

We can observe from previous years a constant decrease in the efficiency ratio, **showing a better coverage of expenses by profits.**

INVESTMENT RISKS

OPERATIONAL RISK

LIQUIDITY RISK (IR1)

Current high levels of liquidity will tend to decrease as credit demand accelerates over the next few months. Companies and retail customers will continue providing the main funding source as well as foreign currency deposits arising from Argentina's tax amnesty last year. **GGAL has recently achieved a primary follow-on offering, raising up to 550 M USD for further operational business, is waiting for the authorization of the sale of CFA, and also holds a liquid position in LEBACS.** The liquidity ratio for the financial system was around 44.5% of total deposits, decreasing for the fifth consecutive month and being the lowest level since the end of 2015. In figure 27, we show the evolution in the LCR (Liquidity Coverage Ratio), a BCRA compulsory ratio which is in line with Basel III guidelines.

INTEREST RATE RISK (IR2)

BCRA monetary policy will probably continue lowering its interest rates of reference as the local economy shows healthy signs. Interest income rates will tend to decrease and to counter this risk the company is focusing on the growing demand of credit volumes and offering more fee-based services.

CREDIT RISK (IR3)

Rapid credit expansion boosting economic growth should be considered good news, but borrowers' indebtedness is starting to rise. GGAL focus is in middle-lower classes, where current NPLs/Total Credit shows good performance but a slightly positive slope which we expect will remain not difficult to manage.

COMPETITION RISK

FINTECHS (IR4)

Disintermediation, no physical branches, and very competitive fees are some of the key elements where startups are betting to compete with big players. Soros venture Ualá, Mercado Pago and Afluenta are some examples of Fintechs aiming to disrupt the way people use, lend and borrow money. **Through "Hackatones" and Galicia Lab, GGAL develops**

Investments through Fintech (USD Bn)

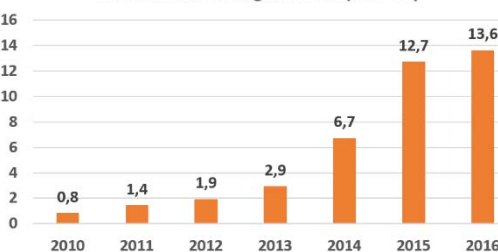


Figure 28 - Source: KPMG

its own technology to improve clients experience and financial services.

PEERS RISK (IR5)

Market-friendly policy reforms implemented by the current government focusing on the financial intermediation of the economy, creates new business opportunities that will increase competition in financial intermediation and credit cards, which are the two main sources of income of GGAL. Banco Macro (NYSE:BMA), Banco Santander Rio (BCBA:BRIO) and Banco Frances (NYSE:BFR) are certainly the players to keep an eye on in the private sector.

MARKET RISK

EXCHANGE RATE RISK (IR6)

After relaxing foreign exchange controls over the last few years, the Peso shows increased volatility levels more alike other emerging currencies. Through the active hedging of its foreign currency positions and securing local currency loans, the company reduces its exposition. However, holding's activities are in Argentinian currency, so it's important to consider that variations in the exchange rate could generate a significant impact in dollars future cash flows.

MSCI RECLASSIFICATION PROPOSAL (IR7)

The American provider will announce in June 2018 its decision to reclassify MSCI Argentina Index from Frontier Market to Emerging Market which may increase the appetite for Argentina's stocks.

MACRO RISK

BRAZILIAN ECONOMY (IR8)

Argentina's main trade partner is slowly leaving behind its worst economic crises but political instability seems like it will stay until the 2018 presidential election. Every fluctuation in Argentina's main commercial partner has direct implications in the local market.

GOVERNMENT CHALLENGE TO CORRECT FISCAL IMBALANCES (IR9)

By reducing the high spending growth rate, the question is if Macri's government will be able to provide sustainable conditions for local the economy, such as lower inflation levels, a manageable public debt and a zero fiscal deficit in the long term. Broadly speaking, the government is planning a gradual convergence to a primary fiscal balance in equilibrium by 2019.

VARIATION (USD/ARS) STOCK PRICE	SENSITIVITY OVER 2018 EXCHANGE RATE					
	10%	15%	20%	25%	30%	35%
	70.24	67.97	65.89	63.98	62.22	60.59

Table 12 - Source: Team Estimates

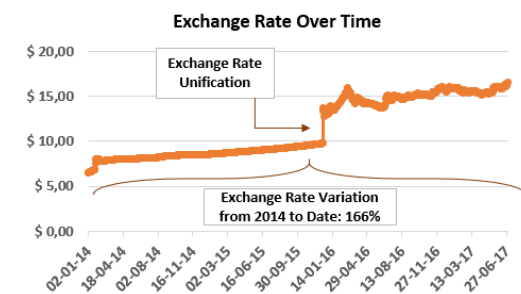


Figure 29 - Source: BCRA

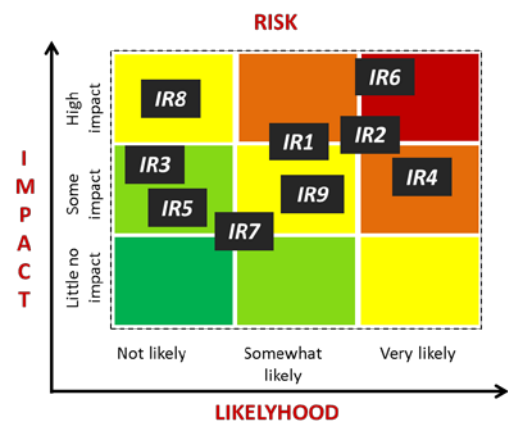
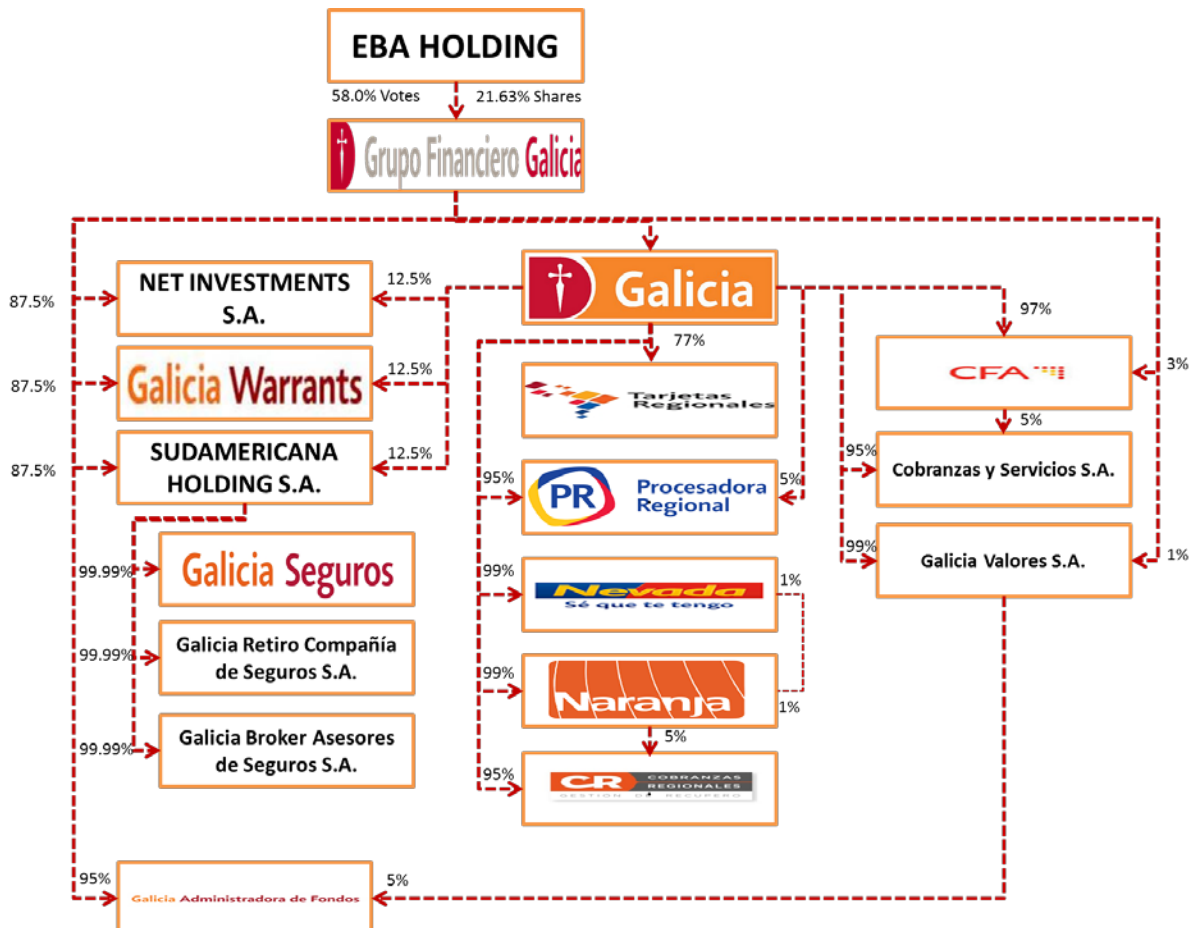


Figure 30 - Risk Matrix - Source: Team Estimates

APPENDIX 1: GLOSSARY

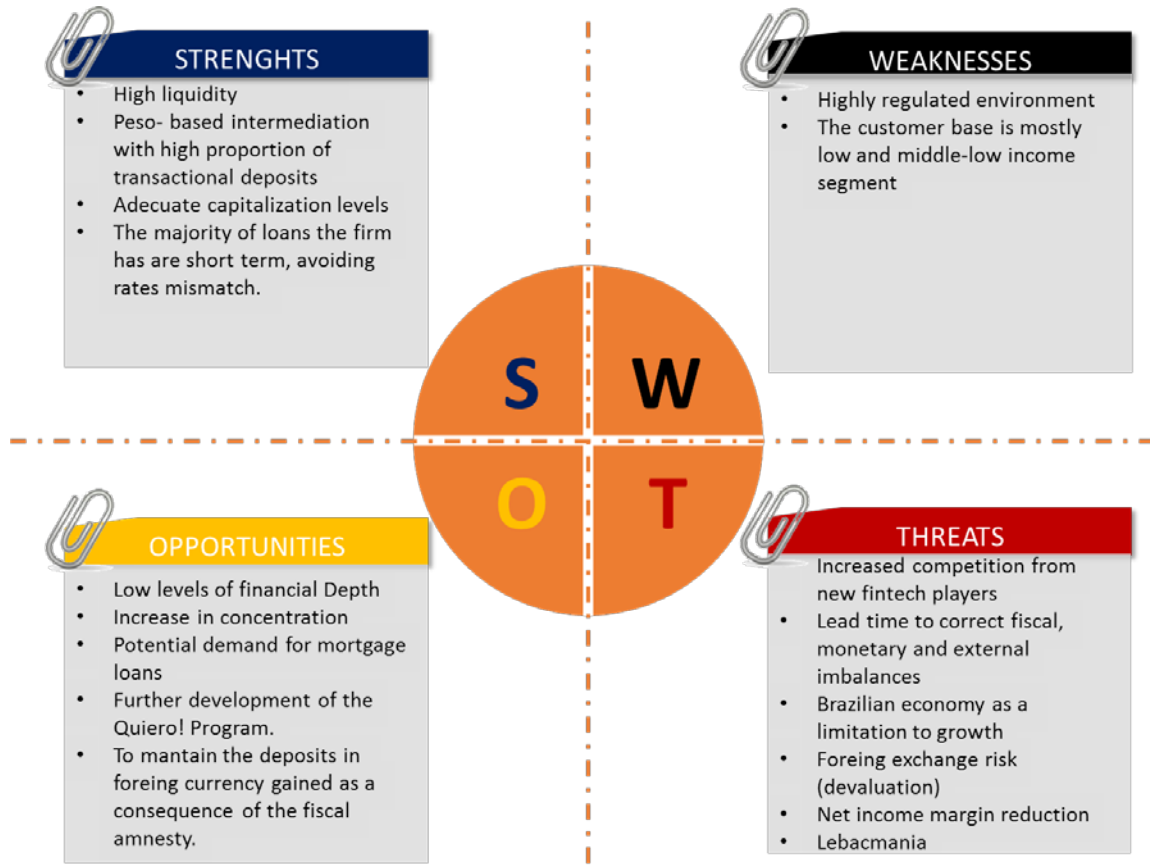
ADRS: American Depositary Share
AFIP: Federal Administration Of Public Revenues
BCRA: Central Bank Of Argentina
CAPEX: Capital Expenditure
CFA: Compañía Financiera Argentina
DCF: Discounted Cash Flow
EBITDA: Earnings Before Interests, Taxes, Depreciations And Amortizations
FCFF: Free Cash Flow For The Firm
FINTECH: Finance Technology
FOMC: Federal Open Market Committee
GDP: Gross Domestic Product
GGAL: Grupo Financiero Galicia S.A.
IFRS: International Financial Reporting Standards
INDEC: National Statistics and Census Institute
LCR: Leverage Coverage Ratio
KD: Cost Of Debt
KE: Cost Of Equity
LATAM: Latin America
NIM: Net Interest Margin
NPLs: Nonperforming Loans
P/E: Price-To-Earnings Ratio
PP&E: Property, Plant and Equipment
ROA: Return On Assets
ROE: Return On Equity
WACC: Weighted Average Cost Of Capital

APPENDIX 2: HOLDING



Source: Company Data

APPENDIX 3: SWOT ANALYSIS



Source: Team Estimates

APPENDIX 4: BOARD OF DIRECTORS

Name	Type of Board Member	Degree
Eduardo Jose Escasany	Chairman of the Board	Bachelor's degree in Economics
Pablo Gutierrez	Vice Chairman	Bachelor's degree in Business Administration
Abel Ayerza	Member of the Board of Directors	Bachelor's degree in Business Administration
Daniel Antonio Llambías	Member of the Board of Directors	Bachelor's degree in National Public Accounting
Federico Mauricio Braun	Member of the Board of Directors	Bachelor's degree in Industrial Engineering
Cirilo Enrique Martin	Member of the Board of Directors	Bachelor's degree in Law
Antonio Garcés	Member of the Board of Directors	Bachelor's degree in National Public Accounting
Silvestre Vila Moret	Member of the Board of Directors	Bachelor's degree in Banking Administration
Pedro A. Richards	Member of the Board of Directors	Bachelor's degree in Economics
Sergio Grinenco	Alternate Director	Bachelor's degree in Economics
Alejandro Maria Rojas Lagarde	Alternate Director	Bachelor's degree in Law
Augusto Macnab	Alternate Director	Bachelor's degree in Economics
Norberto Corizzo	Member of Corporate Board	Bachelor's degree in National Public Accounting

Source: Company Data

APPENDIX 7: ESTIMATES

ASSUMPTIONS FOR DCF					
	2018	2019	2020	2021	2022
% Loans / GDP	19%	22%	25%	28%	32%
GDP Argentina MM USD	567	583	601	619	638
GDP's Growth	3%	3%	3%	3%	3%
MKT Share GGAL	11%	11%	11%	11%	11%
Thousands of U.S. Dollars Loans	12,270	14,634	17,279	19,933	23,464
% Interest income / Loans	19%	17%	15%	14%	13%

INCOME STATEMENT					
SCENARIO	2018	2019	2020	2021	2022
Interest Income, Bank	2,331	2,488	2,592	2,691	2,933
Total Interest Expense	1,183	1,262	1,315	1,366	1,488
Net Interest Income	1,148	1,225	1,277	1,325	1,445
Loan Loss Provision	259	299	323	345	377
Net Interest Inc. After Loan Loss Prov.	889	926	954	980	1,068
Non-Interest Income, Bank	2,106	2,247	2,341	2,430	2,649
Non-Interest Expense, Bank	- 2,172	- 2,318	- 2,415	- 2,507	- 2,733
Net Income Before Taxes	822	855	880	903	984
Provision for Income Taxes	281	299	312	324	353
Net Income After Taxes	542	555	568	579	631
Minority Interest	- 10	- 16	- 22	- 21	- 24
Net Income Before Extra. Items	532	539	546	558	607
Net Income	532	539	546	558	607

BALANCE SHEET					
SCENARIO	2018	2019	2020	2021	2022
Assets					
Cash & Due from Banks	3,007	3,570	3,867	4,260	4,589
Other Earning Assets, Total	1,598	1,351	1,180	1,100	1,008
Net Loans	12,270	14,634	17,279	19,933	23,464
Property/Plant/Equipment, Total - Gross	403	562	701	805	901
Property/Plant/Equipment, Total - Net	302	461	596	676	748
Goodwill, Net	-	-	-	-	-
Intangibles, Net	224	267	315	364	428
Long Term Investments	7	8	10	11	13
Other Assets, Total	1,516	1,561	1,608	1,656	1,706
Total Assets	18,925	21,853	24,855	28,001	31,957
Liabilities (\$ Millions)					
Accounts Payable	277	330	390	450	529
Accrued Expenses	249	297	351	405	477
Total Deposits	10,798	12,732	14,687	16,744	19,475
Total Short Term Borrowings	1	2	2	2	2
Other Current liabilities, Total	250	298	352	406	478
Total Long Term Debt	2,500	2,750	3,025	3,328	3,660
Minority Interest	105	108	112	116	120
Other Liabilities, Total	2,255	2,334	2,416	2,500	2,588
Total Liabilities	16,435	18,851	21,334	23,950	27,329
Shareholders Equity (\$ Millions)					
Total Equity	2,489	3,002	3,520	4,050	4,627

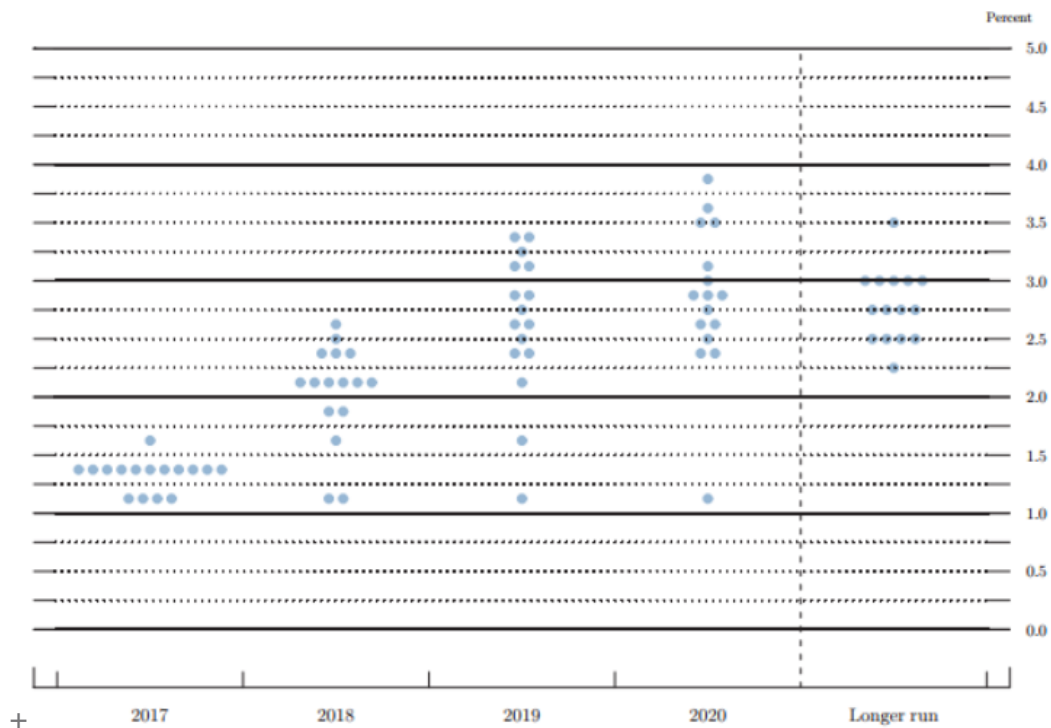
CASHFLOW					
SCENARIO	2018	2019	2020	2021	2022
Net Income	532	539	546	558	607
Changes in Working Capital	570	396	338	248	315
Changes in Net Loans	- 2,740	- 2,364	- 2,645	- 2,654	- 3,531
Changes in deposits	1,338	1,934	1,955	2,057	2,731
Net capex	- 31	- 159	- 135	- 80	- 72
Changes in Financial Debt	500	250	275	303	333
Changes in Other Assets	- 96	- 90	- 97	- 98	- 116
Changes in Other Liabilities	80	83	86	89	92
Dividends	- 27	- 27	- 27	- 28	- 30
Cash Flow	126	563	296	393	329
<i>Cash Beginning</i>	2,881	3,007	3,570	3,867	4,260
<i>Cash Ending</i>	3,007	3,570	3,867	4,260	4,589

SCENARIO	DCF				
	2018	2019	2020	2021	2022
NOPAT	746	796	830	862	939
Depreciation and Amortization	101	101	105	129	153
CAPEX	- 31	- 159	- 135	- 80	- 72
Variation in WC	- 570	- 396	- 338	- 248	- 315
FCFF	246	343	462	662	705
WACC	8.47%	8.56%	8.57%	8.51%	8.45%
DCF	226	291	361	478	470
Grow th (perpetuity)	3.00%				
Terminal Value	9,130				
Enterprise Value	10,955				
Cash	2,159				
Debt	3,786				
Equity (MM)	9,328				
Outstanding shares (MM)	141				
Stock Price	66.16				

Estimates	WACC				
	2018	2019	2020	2021	2022
Beta	1.28	1.28	1.28	1.28	1.28
Rf	2.0%	2.5%	3.0%	3.0%	3.0%
Risk Premium	7%	7%	7%	7%	7%
EMBI+	3.5%	3.3%	3.1%	2.9%	2.7%
Re	14%	15%	15%	15%	15%
Rd	9%	9%	9%	9%	9%
Tax Rate	35%	35%	35%	35%	35%
D/A	70%	70%	70%	70%	70%
E/A	30%	30%	30%	30%	30%
WACC	8.4%	8.5%	8.6%	8.5%	8.5%

Source: Team Estimates

APPENDIX 8: DOT PLOT OF ESTIMATED FED RATES



Source: FED

APPENDIX 9: FINTECH



Source: Team Research

APPENDIX 10: COVERED CALL DATA

Stock price	Return	Return	Stock price	Return	Return
\$ 50,00	\$ (5,05)	-9,17%	\$ 58,50	\$ 3,45	6,27%
\$ 50,25	\$ (4,80)	-8,72%	\$ 58,75	\$ 3,70	6,72%
\$ 50,50	\$ (4,55)	-8,27%	\$ 59,00	\$ 3,95	7,18%
\$ 50,75	\$ (4,30)	-7,81%	\$ 59,25	\$ 4,20	7,63%
\$ 51,00	\$ (4,05)	-7,36%	\$ 59,50	\$ 4,45	8,08%
\$ 51,25	\$ (3,80)	-6,90%	\$ 59,75	\$ 4,70	8,54%
\$ 51,50	\$ (3,55)	-6,45%	\$ 60,00	\$ 4,95	8,99%
\$ 51,75	\$ (3,30)	-5,99%	\$ 60,25	\$ 4,95	8,99%
\$ 52,00	\$ (3,05)	-5,54%	\$ 60,50	\$ 4,95	8,99%
\$ 52,25	\$ (2,80)	-5,09%	\$ 60,75	\$ 4,95	8,99%
\$ 52,50	\$ (2,55)	-4,63%	\$ 61,00	\$ 4,95	8,99%
\$ 52,75	\$ (2,30)	-4,18%	\$ 61,25	\$ 4,95	8,99%
\$ 53,00	\$ (2,05)	-3,72%	\$ 61,50	\$ 4,95	8,99%
\$ 53,25	\$ (1,80)	-3,27%	\$ 61,75	\$ 4,95	8,99%
\$ 53,50	\$ (1,55)	-2,82%	\$ 62,00	\$ 4,95	8,99%
\$ 53,75	\$ (1,30)	-2,36%	\$ 62,25	\$ 4,95	8,99%
\$ 54,00	\$ (1,05)	-1,91%	\$ 62,50	\$ 4,95	8,99%
\$ 54,25	\$ (0,80)	-1,45%	\$ 62,75	\$ 4,95	8,99%
\$ 54,50	\$ (0,55)	-1,00%	\$ 63,00	\$ 4,95	8,99%
\$ 54,75	\$ (0,30)	-0,54%	\$ 63,25	\$ 4,95	8,99%
\$ 55,00	\$ (0,05)	-0,09%	\$ 63,50	\$ 4,95	8,99%
\$ 55,25	\$ 0,20	0,36%	\$ 63,75	\$ 4,95	8,99%
\$ 55,50	\$ 0,45	0,82%	\$ 64,00	\$ 4,95	8,99%
\$ 55,75	\$ 0,70	1,27%	\$ 64,25	\$ 4,95	8,99%
\$ 56,00	\$ 0,95	1,73%	\$ 64,50	\$ 4,95	8,99%
\$ 56,25	\$ 1,20	2,18%	\$ 64,75	\$ 4,95	8,99%
\$ 56,50	\$ 1,45	2,63%	\$ 65,00	\$ 4,95	8,99%
\$ 56,75	\$ 1,70	3,09%	\$ 65,25	\$ 4,95	8,99%
\$ 57,00	\$ 1,95	3,54%	\$ 65,50	\$ 4,95	8,99%
\$ 57,25	\$ 2,20	4,00%	\$ 65,75	\$ 4,95	8,99%
\$ 57,50	\$ 2,45	4,45%	\$ 66,00	\$ 4,95	8,99%
\$ 57,75	\$ 2,70	4,90%	\$ 66,25	\$ 4,95	8,99%
\$ 58,00	\$ 2,95	5,36%	\$ 66,50	\$ 4,95	8,99%
\$ 58,25	\$ 3,20	5,81%	\$ 66,75	\$ 4,95	8,99%

Source: Team Estimates

APPENDIX 11: CREDIT, GDP AND INFLATION REGRESSION

<i>Regression Statistics</i>	
Multiple R	0,998753048
R Square	0,99750765
Adjusted R Square	0,99679555
Standard Error	23795,74227
Observations	10

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	(595.690,7328)	142.871,7660	(4,1694)	0,0042	(933.528,7756)	(257.852,6899)	(933.528,7756)	(257.852,6899)
GDP	0,9177	0,2147	4,2750	0,0037	0,4101	1,4253	0,4101	1,4253
Inflation	1.409,3638	33,4959	42,0757	0,0000	1.330,1585	1.488,5692	1.330,1585	1.488,5692

	<i>Sistema</i>	<i>PIB</i>	<i>Inflation</i>
Sistema	1		
GDP	0,605946	1	
Inflation	0,995490	0,540518	1

Source: Team Estimates

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