BANCOPATAGONIA

Consolidated financial statements in accordance with International Financial Reporting Standards as of December 31, 2016 jointly with the Independent Auditors' Report

BANCO PATAGONIA S.A.

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS OF DECEMBER 31, 2016

TABLE OF CONTENTS

BANCO PATAGONIA S.A.

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS OF DECEMBER 31, 2015

TABLE OF CONTENTS (cont.)

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the directors and shareholders of
BANCO PATAGONIA S.A.
Legal address: Avenida de Mayo 701, 24th floor
City of Buenos Aires
Republic of Argentina

Report on the Consolidated Financial Statements

We have examined the accompanying consolidated financial statements of BANCO PATAGONIA S.A. (the "Entity") and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Bank's Management is responsible for the preparation and fair presentation of the attached consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). This responsibility includes designing, implementing and maintaining any such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures, on a selective test basis, to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Entity as of December 31, 2016, the consolidated results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards.

City of Buenos Aires, Republic of Argentina, March 22, 2017

KPMG

Mauricio G. Eidelstein
Partner

BANCO PATAGONIA S.A.

Registered office:			
Avenida de Mayo 701 24th Floor- City of Buenos Aires - Argentina			
Main business activity: Commercial bank		**Taxpayer Identification number (CUIT)**: 30-50000661-3	
Incorporation date: May 4,1928			
Registration with the Public Registry of Commerce of the City of Buenos Aires	**Date**	**(1) Of articles of incorporation:** 09/18/1928	
		(2) Of latest amendment: 12/07/2011	
	Book	**Stock Companies Book:** 57	
		Number: 30114	
Expiration of articles of incorporation: August 29, 2038			
Fiscal year No. 93			
Beginning date: January 1, 2015		**Closing date:** December 31, 2015	

Capital structure (See note 2)

Number and characteristics of shares	In Argentine pesos	
	Subscribed	**Paid-in**
719,264,737 registered, common shares, with a nominal value of ARS 1, one vote each	719,264,737	719,264,737

BANCO PATAGONIA S.A.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of Argentine pesos)

ASSETS	NOTE	12/31/2016	12/31/2015
Cash and cash equivalents	17	10,885,200	9,599,808
Special guarantee accounts in central banks	18	649,453	399,542
Financial assets measured at fair value	19	12,641,297	9,609,111
Other financial assets at amortized cost	19	-	111,885
Derivative financial instruments	20	10,312	52,859
Loans	21	45,888,891	37,817,414
Other receivables	22	366,668	385,065
Property and equipment	23	838,872	560,076
Intangible assets	24	26,368	-
Deferred tax assets	14	276,461	327,364
Other assets	25	411,000	351,296
TOTAL ASSETS		**71,994,522**	**59,214,420**
LIABILITIES			
Financing facilities received from financial institutions	26	2,463,221	2,621,336
Derivative financial instruments	20	11,606	910,938
Deposits	27	52,219,645	42,051,125
Corporate bonds	28	1,582,752	1,094,608
Other liabilities	29	5,718,605	4,048,999
Provisions	30	140,634	142,220
TOTAL LIABILITIES		**62,136,463**	**50,869,226**

Marcelo A. Iadarola
Executive Manager
of Administration, Accounting and Taxes

Juan D. Mazzón
Superintendent
Finance, Administration and Public Sector Area

João Carlos de Nóbrega Pecego
President

BANCO PATAGONIA S.A.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of Argentine pesos)

SHAREHOLDERS' EQUITY	NOTE	12/31/2016	12/31/2015
Share capital	2	719,145	719,265
Additional paid-in capital		217,191	217,191
Unappropriated retained earnings		3,783,864	2,986,480
Translation reserve	31	96,823	74,644
Legal reserve	31	1,887,990	1,406,883
Other reserves	31	3,141,814	2,932,649
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS		**9,846,827**	**8,337,112**
NON CONTROLLING INTERESTS		**11,232**	**8,082**
TOTAL SHAREHOLDERS' EQUITY		**9,858,059**	**8,345,194**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**71,994,522**	**59,214,420**

Notes 1 to 42 are an integral part of these Consolidated Financial Statements.

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BANCO PATAGONIA S.A.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED

(In thousands of Argentine pesos)

STATEMENTS OF PROFIT OR LOSS	NOTE	12/31/2016	12/31/2015
Interest income and similar income	5	10,236,963	7,615,587
Interest expenses and similar expenses	6	(5,737,760)	(4,149,043)
Net interest income and similar income		4,499,203	3,466,544
Fee income	7	3,482,457	2,505,860
Fee expenses	7	(875,912)	(556,437)
Net fee income		2,606,545	1,949,423
Gains on financial assets measured at fair value through profit or loss	8	3,459,136	2,612,011
Net exchange gains	9	610,706	335,764
Other operating income	10	143,798	36,395
TOTAL OPERATING INCOME BEFORE IMPAIRMENT LOSS ON FINANCIAL ASSETS		**11,319,388**	**8,400,137**
Net impairment loss on financial assets	21	(368,343)	(287,423)
SUBTOTAL		**10,951,045**	**8,112,714**

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED

(In thousands of Argentine pesos)

STATEMENTS OF PROFIT OR LOSS	NOTE	12/31/2016	12/31/2015
Personnel expenses	11	(2,914,184)	(2,056,781)
Depreciation	23	(82,355)	(39,501)
Amortization of intangible assets	24	(2,089)	-
Other receivable losses and provisions	12	(34,512)	(27,417)
Other operating expenses	13	(2,979,966)	(2,255,240)
TOTAL OPERATING EXPENSE		**(6,013,106)**	**(4,378,939)**
INCOME BEFORE INCOME TAX		**4,937,939**	**3,733,775**
Income tax expense	14	(1,731,992)	(1,311,141)
NET INCOME		**3,205,947**	**2,422,634**
Attributable to:			
Parent company's shareholders		3,202,797	2,420,465
Non-controlling interests	3.1	3,150	2,169
Earnings per share:			
Basic earnings per share	15	4.4536	3.3658
Diluted earnings per share	15	4.4536	3.3658

Notes 1 to 42 are an integral part of these Consolidated Financial Statements.

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BANCO PATAGONIA S.A.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED

(In thousands of Argentine pesos)

STATEMENT OF COMPREHENSIVE INCOME	NOTE	12/31/2016	12/31/2015
NET INCOME		**3,205,947**	**2,422,634**
OTHER COMPREHENSIVE INCOME:			
Other comprehensive income that will be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations	3.1	34,121	51,820
Tax effect on other comprehensive income	3.1	(11,942)	(18,137)
OTHER COMPREHENSIVE INCOME, NET OF TAXES		**22,179**	**33,683**
TOTAL COMPREHENSIVE INCOME		**3,228,126**	**2,456,317**
Attributable to:			
The parent company's shareholders		3,224,976	2,454,148
Non-controlling interests	3.1	3,150	2,169

Notes 1 to 42 are an integral part of these Consolidated Financial Statements.

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BANCO PATAGONIA S.A.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016

(In thousands of Argentine pesos)

Changes	Share capital (1)	Additional paid-in capital	Legal reserve (2) (3)	Other reserves (2) (3) (5)	Translation reserve (3)	Unappropriated retained earnings	Total attributable to parent company's shareholders (4)	Total non-controlling interests (4)	Total
Balance as of January 1, 2016	**719,265**	**217,191**	**1,406,883**	**2,932,649**	**74,644**	**2,986,480**	**8,337,112**	**8,082**	**8,345,194**
Net income	-	-	-	-	-	3,202,797	3,202,797	3,150	3,205,947
Other comprehensive income (net of income tax amounting to 11,942) (6)	-	-	-	-	22,179	-	22,179	-	22,179
Total comprehensive income	-	-	-	-	22,179	3,202,797	3,224,976	3,150	3,228,126
Distribution of earnings, as approved by the Annual Shareholders' Meetings held on 4/27/16 and 7/25/16 (2):									
Legal reserve	-	-	481,107	-	-	(481,107)	-	-	-
Cash dividends (7)	-	-	-	(1,662,533)	-	(52,728)	(1,715,261)	-	(1,715,261)
Other reserves - Future distribution of earnings	-	-	-	1,871,698	-	(1,871,698)	-	-	-
Capital reduction (8)	(120)	-	-	-	-	120	-	-	-
Balances as of December 31, 2016	**719,145**	**217,191**	**1,887,990**	**3,141,814**	**96,823**	**3,783,864**	**9,846,827**	**11,232**	**9,858,059**

(1) See Note 2.
(2) See Note 16.
(3) See Note 31.
(4) See Note 3.1.
(5) The other reserve is net of the purchase of treasury shares in the amount of 394. (See Note 2.2)
(6) See Note 14.
(7) Dividends per share amounts to 2.3851
(8) See Note 2.3

Notes 1 to 42 are an integral part of these Consolidated Financial Statements.

Marcelo A. Iadarola	Juan D. Mazzón	João Carlos de Nóbrega Pecego
Executive Manager	Superintendent	President
of Administration, Accounting and Taxes	Finance, Administration and Public Sector Area	

BANCO PATAGONIA S.A.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015

(In thousands of Argentine pesos)

Changes	Share capital (1)	Additional paid-in capital	Legal reserve (2)	Other reserves (2) (4)	Translation reserve (2)	Unappropriated retained earnings	Total attributable to parent company's shareholders (3)	Total non-controlling interests (3)	Total
Balance as of January 1, 2015	**719,265**	**217,191**	**971,688**	**2,234,337**	**40,961**	**2,744,130**	**6,927,572**	**5,913**	**6,933,485**
Net income	-	-	-	-	-	2,420,465	2,420,465	2,169	2,422,634
Other comprehensive income (net of income tax amounting to 18,137) (5)	-	-	-	-	33,683	-	33,683	-	33,683
Total comprehensive income	-	-	-	-	33,683	2,420,465	2,454,148	2,169	2,456,317
Distribution of earnings, as approved by the Annual Shareholders' Meeting held on 04/23/15:									
Legal reserve	-	-	435,195	-	-	(435,195)	-	-	-
Cash dividends (6)	-	-	-	-	-	(1,044,608)	(1,044,608)	-	(1,044,608)
Other reserves - Future distribution of earnings	-	-	-	698,312	-	(698,312)	-	-	-
Balances as of December 31, 2015	**719,265**	**217,191**	**1,406,883**	**2,932,649**	**74,644**	**2,986,480**	**8,337,112**	**8,082**	**8,345,194**

(1) See Note 2.
(2) See Note 31.
(3) See Note 3.1.
(4) The other reserve is net of the purchase of treasury shares in the amount of 394. (See Note 2.2).
(5) See Note 14.
(6) Dividends per share amounts to 1.4526.

Notes 1 to 42 are an integral part of these Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED

(In thousands of Argentine pesos)

	12/31/2016	12/31/2015
Changes in cash and cash equivalents		
Cash and cash equivalents as of January 1	9,599,808	6,600,443
Exchange gains attributable to cash and cash equivalents	879,119	584,504
Cash and cash equivalents as of December 31	10,885,200	9,599,808
Net increase / (decrease) in cash and cash equivalents	**406,273**	**2,414,861**
Sources (uses) of cash and cash equivalents		
Operating activities		
Net income	3,205,947	2,422,634
Adjustments:		
Depreciation of Property and equipment	82,355	39,501
Gain on sale of Property and equipment	(5,695)	(4,376)
Amortization of Intangible assets	2,089	-
Net Exchange gains	(610,706)	(335,764)
Income tax expense	1,731,992	1,311,141
Interest expense on corporate bonds	361,677	259,557
Interest expense on financing facilities received from financial institutions	261,781	53,377
Cash dividends from shares	(45,750)	(35,316)
Interest income on loans	(10,209,002)	(7,593,478)
Interest income on other receivables	(19,390)	(13,913)
Interest income on other financial assets at amortized cost	(4,073)	(6,084)
Interest expense on deposits	5,017,782	3,792,146
Changes in:		
Special guarantee accounts in central banks	(249,911)	(132,266)
Financial assets measured at fair value	(2,772,712)	(2,608,117)
Other financial assets at amortized cost	109,686	(38,122)
Derivative financial instruments – assets	42,547	128,316
Loans	(6,770,062)	(10,966,579)
Other receivables	12,685	(53,408)
Other assets	(59,699)	(112,092)
Financing facilities received from financial institutions	(674,473)	(429,129)
Derivative financial instruments – liabilities	(899,332)	910,938
Deposits	9,129,746	13,531,525
Other liabilities	988,279	774,517
Provisions	(1,586)	49,058
Interest paid for financial facilities received from financial institutions	(239,252)	(23,125)
Interest paid on deposits	(5,009,630)	(3,564,197)
Interest received from loans	9,659,974	7,221,869
Interest received from other receivables	25,102	18,337
Interest received from other financial assets at amortized cost	6,272	5,902
Cash dividends received	45,750	35,316
Income tax paid	(997,649)	(1,694,965)
Net cash flows provided by / (used in) operating activities	**2,114,742**	**2,880,203**

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BANCO PATAGONIA S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED

(In thousands of Argentine pesos)

	12/31/2016	12/31/2015
Investing activities		
Purchases of property and equipment	(390,857)	(230,767)
Purchases of intangible assets	(28,457)	-
Proceeds from sale of property and equipment	35,401	4,318
Net cash flows used in investing activities	**(383,913)**	**(226,449)**
Financing activities		
Financing facilities received from financial institutions	583,968	3,848,671
Payments on financing facilities from financial institutions	(319,730)	(2,728,138)
Proceeds from issuance of corporate bonds	1,121,389	782,200
Payments of corporate bonds	(994,922)	(1,097,018)
Dividends paid	(1,715,261)	(1,044,608)
Net cash flows used in financing activities	**(1,324,556)**	**(238,893)**
Net increase/ (decrease) in cash and cash equivalents	**406,273**	**2,414,861**

Notes 1 to 42 are an integral part of these Consolidated Financial Statements.

Marcelo A. Iadarola	Juan D. Mazzón	João Carlos de Nóbrega Pecego
Executive Manager	Superintendent	President
of Administration, Accounting and Taxes	Finance, Administration and Public Sector Area	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Argentine pesos)

NOTE 1: General information - Background of the Bank and its subsidiaries

Banco Patagonia S.A. (the “Bank”) is a corporation organized in Argentina that operates as a universal bank and has a nationwide distribution network. The Bank is controlled by Banco do Brasil S.A.

These Consolidated Financial Statements comprises the Bank and its subsidiaries (collectively, the Group). The Bank’s subsidiaries are:

– Patagonia Inversora S.A. Sociedad Gerente de Fondos Comunes de Inversión: it is engaged in the mutual funds management business. Mutual funds are traded exclusively through the Bank, which, in turn, operates as mutual funds custodian.

– Patagonia Valores S.A.: it is in charge of trading securities on the Buenos Aires Securities Market (*Mercado de Valores de Buenos Aires*). Patagonia Valores provides the Bank and its customers with services, broadening the offering of products and actively participating in securities trading transactions such as placement and later sale of financial trusts and other securities.

– Banco Patagonia (Uruguay) S.A. I.F.E.: it is a Uruguayan corporation authorized to conduct financial intermediation activities in Uruguay between nonresidents exclusively and in any foreign currency other than the Uruguayan peso, under the supervision of Banco Central del Uruguay (Uruguayan Central Bank).

– GPAT Compañía Financiera S.A. (GPAT) is a company authorized to act as a financial institution, specialized in wholesale and retail financing for the acquisition of new automobiles, from both dealers - especially in the General Motors network in Argentina— and private customers.

Since July 20, 2007, Banco Patagonia S.A.’s shares have been publicly offered and listed on the BCBA (Buenos Aires Stock Exchange) and BOVESPA (São Paulo Stock Exchange). Accordingly, the Group prepares Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) to be filed with the Comissao de Valores Mobiliários (Brazilian National Securities Commission) (CVM).

On December 27, 2012, Law No. 26831 on Capital Markets was enforced and regulated by the Executive Branch Decree No. 1023/13 dated July 29, 2013. Such rule, which became effective on January 28, 2013, provides for a comprehensive reform of the current public offering system (Law No. 17811).

Through General Resolution No. 622/13, dated September 9, 2013, and subsequent administrative criteria, the Comisión Nacional de Valores (Argentine National Securities Commission) (CNV) amended its rules to respond to new circumstances, for the purposes of securing the normal performance of the various agents operating in the Capital Market, with the aim of ensuring compliance with the principles established in the new Capital Market Law.

(In thousands of Argentine pesos)

The Bank has been granted the CNV registration to act in the following capacities:

- Financial and non-financial trustee: authorized through Resolution No. 17418, issued by the CNV on August 8, 2014.
- Mutual fund custodian: authorized through Order No. 2081 of the CNV dated September 18, 2014.
- Settlement and clearing agent and comprehensive trading agent: authorized through Order No. 2095 of the CNV dated September 19, 2014.

On March 22 2017, Banco Patagonia S.A.'s Board of Directors approved the issuance of these Consolidated Financial Statements to be filled with the CVM.

These Consolidated Financial Statements are not required to be approved by the Shareholders.

According to the legal regulations in force, the next Annual Shareholders' Meeting must approve the Bank's Separate and Consolidated Financial Statements as of December 31, 2016, prepared under local standards, which have been approved by the Board of Directors and filed with the CNV and with the CVM on February 15, 2017, and with the Banco Central de la República Argentina (Argentina Central Bank) (BCRA) on February 20, 2017.

NOTE 2: Share capital

As of December 31, 2016 and 2015 the share capital structure is as follows:

SUBSCRIBED AND PAID-IN SHARES				ISSUED		
Class	Number	Nominal value (ARS) per share	Votes per share	Outstanding $	Treasury shares $	Paid-in $
Class "A" common shares	22,768,818	1	1	22,769	-	22,769
Class "B" common shares	696,376,419	1	1	696,376	-	696,376
Total	719,145,237			719,145	-	719,145

SUBSCRIBED AND PAID-IN SHARES				ISSUED		
Class	Number	Nominal value (ARS) per share	Votes per share	Outstanding $	Treasury shares $	Paid-in $
Class "A" common shares	22,768,818	1	1	22,769	-	22,769
Class "B" common shares	696,495,919	1	1	696,376	120	696,496
Total	719,264,737			719,145	120	719,265

$: Thousands of Argentine pesos
ARS: Argentine pesos

1. Capital Structure

In accordance with section 6 of the bylaws, class "A" and class "B" shares entitle their holders to one vote per share and have a nominal value of one peso each.

Class “A” shares represent the interest held by the Province of Río Negro, whereas class “B” shares account for the interest held by private companies.

Class "A" shares entitle their holder to appoint one director, provided the Province of Río Negro keeps at least one share. The abovementioned class "A" shall be automatically converted into class "B" shares upon their transfer to a holder other than the Province of Río Negro. It should be mentioned that there are no differences regarding the economic rights between both classes of shares.

As from April 12, 2011, the Bank's controlling shareholder is Banco do Brasil S.A., which holds an equity interest of 58.9633% of the total Share capital.

2. Treasury shares acquisition plan

On March 26, 2012, the Bank's Board of Directors decided to implement a plan for the repurchase of Treasury shares in the Argentine market in accordance with section 68, Law 17811 (included by Executive Decree 677/01) and CNV rules, up to the maximum amount of $ 3,452, with the limit of a quantity of 1,000,000 registered, common class “B” shares, entitling the holder to one vote per share, with a nominal value of ARS 1 each.

This program was triggered by the international macroeconomic conditions, where capital market volatility, in general, adversely affected the price of local shares, including the Bank’s shares.

The price paid for the shares was up to ARS 3.4515 per share and the term for their acquisition was one hundred and eighty calendar days as from March 27, 2012. Additionally, on September 25, 2012, the Bank’s Board of Directors resolved to extend its effective term until March 22, 2013.

Prior to the cancellation of the aforementioned plan, the Bank purchased shares, whose nominal values were ARS 119,500, in the amount of $ 394.

The due date for the sale of the shares acquired, as set forth in section 67 of Law No. 26831, is three years as from their acquisition, unless an extension of this term is decided at the Shareholders’ Meeting.

According to the provisions of Title IV, Chapter III of CNV rules, the accounting treatment given to the acquisition of Treasury shares is as follows:

a) The acquisition cost of such shares is debited from “Other reserves – Repurchase of shares” created for such purpose.

b) The nominal value of the shares acquired is debited from the “Share capital – Shares issued and outstanding” account, and credited to the "Share capital - Treasury shares issued" account.

3. Capital reduction

On December 14, 2015, the Bank's Board of Directors approved the capital reduction in the amount of 119,500 treasury, registered, common, Class "B" shares with a nominal value of ARS 1 and one vote per share, representative of 0.016% of the capital, which were purchased pursuant to section 68 of Law No. 17811, as mentioned in this note under paragraph 2. This capital reduction was recognized on March 29, 2016, date on which the Supervisory Board of Companies registered the capital reduction under number 4679 of Book 78 of Share Companies.

4. Call and put options

On April 12, 2011, under the Share Purchase Agreement entered into between Banco do Brasil S.A. and the group of former controlling shareholders of the Bank (Sellers), both parties signed a Shareholders' Agreement whereby, among other rights and duties, the parties granted certain call and put options to be exercised as from the third anniversary of such date, so that Banco do Brasil S.A. will acquire the equity interest held by the sellers in the Bank, at the strike price equivalent to the US dollar price per share established in the Offering. The maximum number of shares that might be subject to these options cannot exceed 25% of the capital and voting rights of the Bank.

NOTE 3: Basis for presentation of the Financial Statements and accounting policies applied

3.1 Basis for presentation

Comparative information

The Consolidated Statements of Profit or Loss, of Comprehensive Income, of Changes in Shareholders' Equity, of Cash Flows and the Notes as of December 31, 2016, are presented comparatively with the two preceding fiscal years, while the Consolidated Statement of Financial Position is presented comparatively with the previous fiscal year.

As from the current year, the Bank considers more appropriate to disclose in the Consolidated Statement of Financial Position, Financial assets measured at fair value in one line, including the pertinent breakdown in Note 19. In adition, as from the current year, the Bank presents the Consolidated Statements of Cash Flows prepared according to the indirect method.

Amounts presented in thousands of Argentine pesos

These Consolidated Financial Statements are presented in Argentine pesos and are rounded up to the nearest thousand in Argentine pesos ($), unless otherwise indicated.

Statement of compliance

These Consolidated Financial Statements have been prepared under the IFRS, which are standards and Interpretations issued by the IASB (International Accounting Standards Board), including the following:

(a) the International Financial Reporting Standards (IFRS);

(b) the International Accounting Standard (IAS); and

(c) the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by its predecessor, the Standards Interpretation Committee (SIC).

As from fiscal year beginning January 1, 2016, the Bank has adopted a number of new standards, interpretations and amendments to standards. The financial effect of these new standards and amendments is not significant to these Consolidated Financial Statements.

These Consolidated Financial Statements have been prepared based on the historical cost model, except for financial assets measured at fair value and derivative financial instruments, which have been measured at fair value.

Consolidation bases

Subsidiaries:

Subsidiaries refer to all entities (including structured entities, if applicable) over which the Bank has control, which is evidenced if and only if all the following elements are present:

a) Power over the investee, which is related to existing rights that give current ability to direct the relevant activities, i.e. activities that significantly affect the investee's returns.

b) Exposure or rights to variable returns from its involvement with the investee; and

c) Ability to use its power over the investee to affect the amount of the investor's returns.

This is generally verified when the investment comprises more than 50% of the voting rights.

Subsidiaries are fully consolidated as from the date when the actual control over them was transferred to the Bank and are no longer consolidated as from the date when that control ceases. The Consolidated Financial Statements include assets, liabilities, income and expenses of Banco Patagonia S.A. and its subsidiaries. The transactions performed between the consolidated entities are fully eliminated.

The subsidiaries' financial statements have been prepared as of the same dates and for the same fiscal years as those of Banco Patagonia S.A., and the accounting policies have been consistently applied.

(In thousands of Argentine pesos)

Non-controlling interests:

Non-controlling interests represent profit or loss and equity no attributable, directly or indirectly to the Bank, and in the current financial statements are presented in a separate line item in the Consolidated Statements of Profit or Loss, of Comprehensive Income, of Financial Position and of Changes in Shareholders' Equity.

On December 31, 2016 and 2015, the Bank's financial statements were consolidated with the financial statements of the following entities:

Entity	Shares held by the Bank		Percentage of	
	Type	Quantity	Share capital	Voting rights
Patagonia Valores S.A.	Common shares	13,862,667	99.99%	99.99%
Patagonia Inversora S.A. Sociedad Gerente Fondos Comunes de Inversión	Common shares	13,317,237	99.99%	99.99%
Banco Patagonia (Uruguay) S.A. I.F.E.	Common shares	50,000	100.00%	100.00%
GPAT Compañía Financiera S.A.	Common shares	86,837,083	99.00%	99.00%

Banco Patagonia S.A.'s Board of Directors considers that no other companies or structured entities should be consolidated as of December 31, 2016, and 2015.

The Bank considers the Argentine peso as its functional and presentation currency. To that effect, prior to their consolidation, the financial statements of Banco Patagonia (Uruguay) S.A.I.F.E., originally issued in US dollars, were translated into Argentine pesos (presentation currency) by applying the following procedure:

a) Assets and liabilities were translated by applying BCRA's benchmark exchange rate, prevailing at closing of operations on the last business day of fiscal years ended December 31, 2016, and 2015 (see Note 3.2.f)).

b) Income/loss for the fiscal years ended December 31, 2016, and 2015 were translated to Argentine pesos on a monthly basis, using the monthly average exchange rate set by BCRA.

c) The resulting currency translation difference is recognized as a separate equity item in Shareholders' equity, disclosed in the Consolidated Statement of Comprehensive Income in the line "Translation reserve".

3.2 Use of judgment and estimates

In preparing these Consolidated Financial Statements, the Bank's Management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the Consolidated Financial Statements is included in the following Notes:

- Note 3.3.e) Impairment of financial assets, particularly the assessment of whether an impairment loss has occurred.
- Note 3.3.n) Provisions, particularly to determine whether it is probable that the Group will be required resources to settle the obligation.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to these Consolidated Financial Statements is included in the following Notes:

- Notes 21 Loans and 38 Risk management, in relation with impairment of financial assets and credit risk, respectively.
- Notes 19 Financial assets measured at fair value and 37 Fair value of financial instruments, in relation to the determination of the fair value of financial assets Level 2.
- Note 30 Provisions, in relation to the likelihood and magnitude of an outflow of resources.
- Note 14 Income tax, in relation to the availability of future taxable profit to be used against with deferred tax assets.

3.3 Valuation and disclosure criteria

The main valuation and disclosure criteria applied to the preparation of these Consolidated Financial Statements as of December 31, 2016, and 2015 are as follows:

a) Recognition of income and expenses:

a.1) Interest income and expenses and similar income and expenses:

Interest income and expenses are recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to:

- The gross carrying amount of the financial assets, or
- The amortized cost of the financial liability.

The calculation of the effective interest rate includes transaction costs, commissions and other items paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issuance of a financial asset or a financial liability.

Interest income includes yields on fixed-income investments and securities, as well as the discount and premium on financial instruments.

Dividends are recognized when they are declared.

a.2) Fees for loans

Fees collected and direct incremental costs related to the provision of financing facilities are included in the measurement of the effective interest rate.

a.3) Service commissions, fees, and similar items:

Service commissions, fee expenses and other similar items are recognized as the related service is provided.

Other fee and commission expenses relate mainly to transaction and service fees, which are recognized as expenses as the service is received.

a.4) Other income and expenses:

Other income and expenses are recognized as the related services are provided or received.

b) Financial instruments: Initial recognition and subsequent measurement:

Purchases or sales of financial assets requiring the delivery of assets within the term generally established by regulations or market conditions are recorded on the transaction trading date, i.e. on the date when the Group agrees to purchase or sell the asset.

On initial recognition, financial assets or liabilities are measured at their fair values. Those financial assets or liabilities that were not measured at fair value through profit or loss are measured at fair value adjusted by the transaction costs that were directly attributable to their purchase or issuance.

Since fiscal year 2010, the Group has early applied IFRS 9 “Financial Instruments” (2009) and further versions of the IFRS 9 have not been early adopted. As a consequence, the Group measures its financial instruments based on the Group’s business model for managing the financial assets and their characteristics. Accordingly, the Group’s financial assets are measured at fair value, except for those assets that meet the two conditions below, which are measured at amortized cost:

I) They are held within a business model whose objective is to hold assets to collect the contractual cash flows.

II) The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b.1) Financial assets measured at fair value through profit or loss:

A financial asset is classified as measured at fair value through profit or loss when:

- it does not fulfil the requirements for being measured at amortized cost, or
- in the case of an equity instrument that is not held for trading, the Group did not elect to make subsequent changes in fair value in Other Comprehensive Income.

A financial asset is classified as measured at amortized cost when the asset is to be held within a business model whose objective is to hold assets to collect the contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal.

The main components are financial assets held for trading and derivative financial instruments.

Financial assets measured at fair value through profit or loss are recorded in the Consolidated Statement of Financial Position at fair value. Changes in fair value and interest income or expenses are recorded in the Consolidated Statement of Profit or Loss in the account "Gains (losses) on financial assets measured at fair value".

The estimated market value of investments measured at fair value was calculated using the effective quoted prices at each reporting date in active markets (Buenos Aires Stock Exchange or Over-the-Counter Market), when they are representative of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If there was no active market, valuation techniques were used that maximize the use of relevant observable inputs and minimize the use of unobservable inputs, including the use of arm's length market transactions between knowledgeable willing parties, if available, as well as reference to the current fair value of another instrument that is substantially the same, or else, the discounted cash flows analysis.

b.2) <u>Financial assets measured at amortized cost</u>

A financial asset is classified as measured at amortized cost when the asset to being held within a business model whose objective is to hold assets to collect the contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal.

Subsequent to initial recognition, financial assets measured at amortized cost are measured at amortized cost using the effective interest method (see Note 3.3.a.1). Interest is the consideration of the time value of money and of the credit risk associated with the principal amount outstanding during a particular period of time. These items are included in the Consolidated Statement of Profit or Loss under "Interest income and similar income".

Financial assets measured at amortized cost includes:

- Loans and other receivables: non-derivative financial assets, which are not publically traded.
- Other financial assets measured at amortized cost: non-derivative financial assets, which can be traded in a market.

Impairment losses are recognized in case a loss event occurs. In such case an allowance is recorded and the pertinent charge is recognized in the Consolidated Statement of Profit or Loss.

b.3) Loans and other receivables:

They are non-derivative financial assets held by the Group within a business model whose objective is to hold assets in order to collect contractual cash flows and whose contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on outstanding principal.

Subsequent to their initial recognition, loans and other receivables are measured at amortized cost, using the effective interest rate method (see Note 3.3.a.1), less the allowance for loan losses. The amortized cost is calculated considering any discount or premium upon acquisition, and fees and costs that are part of the effective interest rate. Impairment losses are included in the Consolidated Statement of Profit or Loss in the accounts "Loan losses – net" and "Other receivable losses and provisions". The breakdown of changes in each of these accounts is disclosed in Notes 21 and 22, respectively.

Loans and other receivables are recorded when funds are disbursed to customers. Guarantees granted and similar items are originally recognized at the fair value of the fees received under "Other liabilities" in the Consolidated Statement of Financial Position when the documents supporting those credit facilities are issued. Subsequent to initial recognition, liabilities for each guarantee are recognized at the higher value between the amortized commission and the best estimate of the expense required to settle any financial obligation arising as a result of the financial guarantee.

Any increase in liabilities related to a financial guarantee is included in the Consolidated Statement of Profit or Loss. The fees received are recognized in the account "Fee income" in the Consolidated Statement of Profit or Loss on the basis of its straight-line amortization over the effective term of the financial guarantee granted.

Refinanced loans and other receivables:

The Group considers as refinanced or rescheduled those financing facilities whose payment terms are changed. This may entail extending the payment terms and agreeing new loan conditions. Once the terms have been renegotiated, the existing financial asset is replaced with a new one, generally resulting in derecognition of the existing asset.

The new loan is no longer considered a past due obligation, if that was the case. Management continuously reviews refinanced and rescheduled loans to ensure that all conditions are met and future payments are likely to be received.

Finance lease - Group acting as a lessor:

When the Group is the lessor in a lease agreement that transfers substantially all the risks and rewards incidental to ownership of the asset to the lease, the arrangement is classified as a financial lease and a receivable equal to the net investment in the lease is recognized and presented within loans.

b.4) Financial liabilities:

Subsequent to initial recognition, all financial liabilities are measured at amortized cost, using the effective interest method, as explained in Note 3.3.a.1.

c) Derecognition and reclassification of financial assets and liabilities:

Financial assets:

A financial asset (or a part of a financial asset or of a group of similar financial assets) is derecognized when: (i) the rights to receive cash flows from the asset have expired; or (ii) the Group has transferred its rights to the cash flows from the asset or has assumed an obligation to pay all cash flows received immediately to a third party; and the Group has transferred substantially all of the risks and rewards of the asset or, otherwise, has relinquished control of the asset.

Reclassification of financial assets occurs when a change is made in the business model under which they are held. Reclassifications are prospectively made, as from the reclassification date, and profits, losses or interest initially recognized are not to be restated.

If a financial asset is reclassified at fair value, such fair value is determined at the reclassification date. Any profit or loss resulting from differences between the previous carrying amount and the fair value is recognized as profit or loss. However, if the financial asset is reclassified at amortized cost, its fair value becomes its new carrying amount at the reclassification date.

Financial liabilities:

A financial liability is derecognized when the payment obligation is either discharged or cancelled or expires. Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Any gain or loss from extinguishment of the original financial liability is recognized in profit or loss.

d) Offsetting financial assets and liabilities:

Financial assets and liabilities should be offset and the net amount reported in the Consolidated Statement of Financial Position, when, and only when, the Group has a legally enforceable right to set off the amounts; and Management intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

e) Impairment of financial assets:

The allowance for loan losses and the allowance for other receivable losses are set up whenever there is objective evidence that the Group will not be able to collect the total amount financed under the original contractual terms. Such allowances are set up on the basis of the classification of risks assigned and considering the guarantees received (for further information, see Note 38).

At each reporting date, the Group assesses whether there is objective evidence of impairment of the financial assets or group of assets. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired includes: significant financial difficulty of the issuer or debtor; a breach of contract, such as default or delinquency in interest or principal payments; the Group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that would not otherwise consider; it becoming probable that the borrower will enter bankruptcy or other financial reorganization; the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the financial assets of the Group.

There follows a description of the criterion adopted for the categories of financial assets listed below:

e.1) Loans and other receivables:

For loans and other receivables measured at amortized cost, the Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through use of an allowance account and the amount of the loss is recognized in the Consolidated Statement of Profit or Loss. Interest income continues to be recognized on the reduced balance at the financial asset's original interest rate.

If, in a subsequent period, the amount of the impairment loss increases or decreases due to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a previously impaired asset is subsequently recovered, such recovery is allocated to the allowance for loan losses and the allowance for other receivable losses, as appropriate.

Loans, and their associated allowances, are written off when there is no realistic prospect of future recovery and guarantees have been sold or transferred to the Group. If a written off asset is subsequently recovered, such recovery is recognized in the Consolidated Statement of Profit or Loss under "Loan losses – net".

For the calculation of the present value, the estimated future cash flows are discounted at the asset's original effective interest rate. If a loan has a variable interest rate, the discount rate will be the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's credit rating system, which considers its historical experience on the basis of statistics, collateral type, past-due status and other relevant factors.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

e.2) Refinanced loans and other receivables:

The Group's loan portfolio includes transactions refinanced through: a) new agreements where the terms and conditions of the original payment schedule are redefined, or b) the issuance of corporate bonds by the debtor. For the purpose of evaluating the impairment of these assets, these loans are measured at the present value of expected future cash flows discounted at the effective interest rate of the original loan.

If there are improvements in the credit rating of a debtor in relation to which an impairment was previously recognized, the previously recognized loan loss is reversed by adjusting the related allowance account. Such reversal does not result in an amount that exceeds what the amortized cost would have been on the reversal date, had the impairment loss not been recognized (see Note 21).

f) Assets and liabilities in foreign currency:

The Bank considers the Argentine peso as its functional and presentation currency.

Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary item is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the spot rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

g) Cash and cash equivalents:

Cash and cash equivalents include notes and coins, unrestricted balances held with central banks and on demand account balances held with local and foreign financial institutions.

Cash and cash equivalents are carried at amortized cost.

h) Purchases and sales with repurchase agreements (repos):

Purchases (sales) of financial instruments under a non-optional agreement to repurchase the same at a fixed price (repos) are recorded in the Consolidated Statement of Financial Position as financing facilities granted (received) based on the nature of the related debtor (lender) under "Loans" or "Financing facilities received from financial institutions" accounts.

The difference between the purchase and sale prices of those instruments is recorded as interest, which is accrued over the effective term of transactions using the effective interest rate method.

i) Derivative financial instruments:

i.1) Forward instruments without delivery of the underlying assets: They include forward purchases and sales of foreign currency without delivery of the underlying agreed-upon asset. Such instruments are measured at the fair value of the contracts and are performed by the Group for the purpose of conducting intermediation activities on its own account. Gains or losses resulting therefrom are recognized in the Consolidated Statement of Profit or Loss for each year.

i.2) Interest rate swaps: They include agreements with the BCRA and other financial institutions, and are measured at their fair value, determined on the basis of the present value of the differences between future flows of interest determined by applying fixed and floating interest rates to the notional amount of agreements. Gains or losses resulting therefrom are recognized in the Consolidated Statement of Profit or Loss for each year.

j) Non-financial assets held for sale:

Non-financial assets are classified as held for sale if their carrying amount will be recovered primarily through sale and the asset is available for immediate sale under ordinary sale conditions, and Management is committed to an active plan for marketing them at a reasonable sales price. Therefore, sales are considered highly probable and it is expected that they will be completed within a year following classification as held for sale.

As of December 31, 2016, and 2015, there are no non-financial assets meeting the conditions mentioned above.

k) Property and equipment:

These assets are recorded at their historical acquisition cost, less the related accumulated depreciation and impairment, where applicable. The historical acquisition cost includes expenses directly attributable to the acquisition of assets. Maintenance and repair costs are expensed as incurred. Any material improvement and renovation is capitalized solely when it is probable that there will be future economic benefits exceeding the return originally evaluated for the asset.

Depreciation is calculated to write off the cost of items using the straight-line method over their estimated useful lives and is recognized in the Consolidated Statement of Profit or Loss.

Depreciation methods and useful lives are reviewed at each year-end and adjusted if necessary.

l) Intangible assets:

Intangible assets comprise the costs of software acquisition and implementation, which are measured at cost less accumulated amortization and any impairment losses, if applicable.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortized on a straight-line basis over its estimated useful life, from the date on which it is available for use, and recognized in the Consolidated Statement of Profit or Loss. The estimated useful life of software is five years.

Amortization methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

m) Impairment of non-financial assets:

At least, at each reporting date, the Group assesses whether there are any events or changes in the circumstances indicating that the value of non-financial assets may be impaired or if there is any indication that an asset may be impaired. If there is an indication or an annual impairment test is required for an asset, the Group calculates the asset's recoverable amount. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or cash-generating units (CGU). If the carrying amount of an asset (or CGU) is higher than its recoverable value, the asset (or CGU), is considered impaired and its carrying amount is reduced to its recoverable value.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of the money and the risks specific to the asset or CGU.

The Group has made these estimates and, given that the recoverable value of assets (value in use) exceeds their carrying amount, it has determined that no adjustment for impairment has to be recognized.

n) Provisions:

The Group recognizes a provision if and only if: (a) the Group has a present legal or constructive obligation resulting from past events; (b) it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation; and (c) the amount payable can be estimated reliably.

In order to assess the provisions, the existing risks and uncertainties were considered taking into account the opinion of the Group's external and internal legal counsel. Based on the analysis performed, the Group recognized a provision in the amount considered to be the best estimate of the potential expenditure required to settle the present obligation at each reporting date.

The provisions recognized by the Group are reviewed at each reporting date and adjusted to reflect the current best estimate available. Additionally, provisions are allocated to a specific item so that they only be used for the purpose for which they were originally recognized.

In the event a) the obligation is possible; or b) it is not probable that an outflow of resources will be required to settle the obligation; or c) the amount of the obligation cannot be reliably measurable, said contingent liability is not recognized and is disclosed in the notes. However, disclosure is not required if payment is remote.

o) Income tax:

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in Other Comprehensive Income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in the transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and

- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that that future taxable income against which they may be used is likely to be available.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset in the Consolidated Statements of Financial Position when the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority of the same taxable entity.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. The assessment relies on estimates and assumptions and may involve a series of value judgments about future events. New information may become available that causes the Group to change its position regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such determination is made.

p) Earnings per share:

Basic and diluted earnings per share are calculated by dividing profit or loss attributable to Banco Patagonia S.A.'s shareholders by the weighted average number of common shares outstanding during each fiscal year. In the fiscal years ended December 31, 2016, and 2015, Banco Patagonia S.A. did not hold any financial instruments with dilutive effects. Therefore, basic and diluted earnings per share are the same.

q) Segment reporting:

The Bank presents separately information about the Bank’s operating segments. An operating segment is a component of the Bank:

- That engages in business activities from which it may earn revenues and incur expenses;
- Whose operating results are regularly reviewed by the Bank’s chief operating decision maker, defined as the Bank’s Board of Directors, to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

Segment information differs from information prepared under IFRS mainly because of:

- Assets and Liabilities are determined considering their monthly average of balances, instead of closing ones,
- Assets, liabilities, income and expenses are presented based on the information prepared for regulatory purposes (BCRA accounting rules), and
- The information is not prepared on a consolidation basis (i.e. does not include balances from the Bank subsidiaries).

r) Investment management and trust activities:

The Bank provides custody, administration, investment management and advisory services to third parties that give rise to the holding or placement of assets in their name. These assets and the gains or losses therefrom are not included in the Consolidated Financial Statements, since they are not the Bank’s assets (see Notes 39 and 40).

Fees arising from these activities are included in the account “Fee income" in the Consolidated Statement of Profit or Loss.

s) Customer loyalty program:

The Bank has a customer loyalty program in place consisting in the accumulation of points through credit and/or debit card consumptions. They can be exchanged for products to be furnished by the Bank.

At each reporting date, the Bank measures the rewards to be granted as an identifiable component of the main transaction, the fair value of which, i.e. the amount at which the reward may be sold separately, is recorded under "Other liabilities – Customer loyalty program" account (see Note 29).

3.4 New pronouncements

The Group has decided not to early adopt the following standards and interpretations, which have been issued but are not yet effective as of December 31, 2016:

- “Disclosure Initiative - Amendments to IAS 7”: This amendment requires additional disclosures to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from financing cash flows and other changes. They are effective for fiscal years beginning on or after January 1, 2017, and comparative information is not required.

- “Recognition of Deferred Tax Assets for Unrealized Losses - Amendments to IAS 12”: Effective for fiscal years beginning on or after January 1, 2017, it provides guidelines to determine future taxable profits against which deferred tax assets can be used.

- IFRS 9 “Financial instruments” (2014), effective for fiscal years beginning on or after January 1, 2018. This standard replaces earlier versions of IFRS 9, including that issued in 2009 currently applied by the Group. The main amendments introduced are: Changes in the classification and measurement of financial assets; the expected loss impairment model is introduced and hedge accounting is simplified.

- IFRS 15 “Revenue from Contracts with Customers”: Effective for fiscal years beginning on or after January 1, 2017, it specifies the nature and timing of revenue recognition, as well as information to be disclosed.

- IFRS 16 “Leases”: Effective for fiscal years beginning on or after January 1, 2019, it replaces the IAS 17 and particularly amends the accounting treatment given to leases by the lessor.

- "Classification and measurement of share based payment transactions” (Amendments to IFRS 2), effective for fiscal years beginning on or after January 1, 2017, it introduces amendments to the accounting for cash-settled share-based payments, the classification of share-based payment transactions settled with tax withholding obligations and when there is a modification to the terms and conditions of the transaction from cash-settled to equity-settled.

Except for IFRS 9, the Group does not expect that the impact of the abovementioned standards and interpretations may be significant for its Consolidated Financial Statements.

IFRS 9 Financial Instruments (2014)

The Group early adopted IFRS 9 (2009) in 2010, consistently with new guidance on classification and measurement of financial assets, reducing the classes of financial assets to: financial assets measured at amortized cost and financial assets measured at fair value, based on the characteristics of the cash flows of the financial asset as well as the Group’s business model. Further IFRS 9 versions were not early applied.

In July 2014, the IASB issued *IFRS 9 Financial Instruments*, which is the comprehensive standard to replace IAS 39 Financial Instruments: Recognition and Measurement and previous versions of IFRS 9, and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Recognition and measurement

The classification and measurement of financial assets will depend on how these are managed (the Group's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL).

These guidelines simplify the accounting for embedded derivatives that are not separated from host financial assets and are generally measured at FVPL.

The classification of financial liabilities has not changed. However, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income instead of profit or loss.

As mentioned before, since the Group has early adopted IFRS 9 (2009), it is currently analyzing the eventual impact of IFRS 9 (2014) on the classification of financial assets. The Group does not expect major changes in the classification of its financial assets and financial liabilities as a consequence of the adoption of the new standard.

Impairment

The impairment requirements apply to financial assets measured at amortized cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts.

For those financial assets, loan commitments and financial guarantees considered to be in Stage 1, that is, those instruments that have not shown a significant rise in the credit risk, an allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12- month ECL).

When a significant increase in the credit risk occurs as from the initial recognition, the instrument is considered to be in Stage 2, and an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL).

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at year-end. In addition, the estimation of ECL should take into account the time value of money.

Financial assets in default are stated at the estimated recoverable value, considering the time value of money. The Group considers that this new methodology might result in an increase of the allowance (provision) for credit losses.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The Group does not currently apply hedge accounting.

Transition

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening statement of financial position at the date of initial application, with no requirement to restate comparative information.

The mandatory application date for the standard as a whole is 1 January 2018.

NOTE 4: Segment reporting

For the purposes of reporting relevant information, the Bank has determined the operating segments listed below, for which discrete financial information is available, which is regularly reviewed by the Bank’s chief operating decision maker.

- Individuals: The individuals segment groups transactions of customers that are individuals. These customers mainly acquire the following products, among others, personal loans, credit cards, overdrafts, time deposits and demand deposit accounts.

- Companies: The companies segment groups the transactions performed by large, micro, small and medium-sized companies that use the credit facilities offered by the Bank, as well as transactional services and deposits.

- Financial and government: This segment includes the transactions that the different groups of customers from the financial and government sector perform with the Bank and its main products include interest-bearing accounts, time deposits, loans, purchase of credit portfolios and trusts.

  The government sector groups the transactions that the different Argentine federal, provincial and municipal government agencies, including the Province of Río Negro (see Note 41), perform with the Bank.

- Treasury: it includes core functions and investment activities, exchange transactions, derivatives and funding transactions that cannot be directly attributable to the segments mentioned above.

- Other without distribution: it includes the balances of the Bank’s subsidiaries and the reconciliation of segment information, prepared based on the local accounting information to the accounting balances adjusted under IFRS.

(In thousands of Argentine pesos)

For management information purposes, the asset and liabilities balances are those corresponding to the average month and not those at year-end. In order to reconcile the amounts with the financial statements, the difference between the average and year-end balances is included in “Other without distribution”.

Given the nature of the abovementioned operating segments, the Bank has not determined any internal prices or allocable costs/revenues resulting from procuring or placing funds, as the case may be, among the different segments.

As of December 31, 2016, and 2015, there are no transactions with individual customers representing 10% or more than the Bank’s total income.

The following tables show the Bank’s business segment reporting for the accounting fiscal years ended December 31, 2016 and 2015:

	Individuals segment	Companies segment	Financial and Government segment	Treasury	Other without distribution (1)	Total as of 12/31/2016
Loans	12,468,420	26,735,113	3,046,715	-	3,638,643	45,888,891
Other assets	1,630	-	416,829	27,781,075	(2,093,903)	26,105,631
TOTAL ASSETS	**12,470,050**	**26,735,113**	**3,463,544**	**27,781,075**	**1,544,740**	**71,994,522**
Deposits	28,614,677	10,851,778	11,010,032	-	1,743,158	52,219,645
Other liabilities	21,600	11,557	2,670,006	7,491,094	(277,439)	9,916,818
TOTAL LIABILITIES	**28,636,277**	**10,863,335**	**13,680,038**	**7,491,094**	**1,465,719**	**62,136,463**
Net interest income and similar income	925,845	4,785,765	(1,372,447)	1,819	158,221	4,499,203
Fee income	1,172,062	1,067,143	153,858	-	213,482	2,606,545
Gains on financial assets measured at fair value through profit or loss	-	27,754	(13,120)	3,070,145	374,357	3,459,136
Net exchange gains	155,050	300,609	44,931	108,134	1,982	610,706
Other operating income	10,256	48,446	25,308	419,506	(359,718)	143,798
TOTAL OPERATING INCOME BEFORE IMPAIRMENT LOSS ON FINANCIAL ASSETS	**2,263,213**	**6,229,717**	**(1,161,470)**	**3,599,604**	**388,324**	**11,319,388**
Net impairment loss on financial assets	(147,676)	(100,428)	(9,468)	9,098	(119,869)	(368,343)
SUBTOTAL	**2,115,537**	**6,129,289**	**(1,170,938)**	**3,608,702**	**268,455**	**10,951,045**
Total operating expenses	-	-	-	(5,822,985)	(190,121)	(6,013,106)
INCOME BEFORE INCOME TAX	**2,115,537**	**6,129,289**	**(1,170,938)**	**(2,214,283)**	**78,334**	**4,937,939**
Income tax expense						(1,731,992)
NET INCOME						**3,205,947**
Attributable to						
Parent company’s shareholders						3,202,797
Non-controlling interests						3,150

(1) The breakdown of Other without distribution follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Argentine pesos)

	Reconciliation items from Management to regulatory information	Subsidiaries (2)	Consolidation adjustments and eliminations	IFRS adjustments	Total other without distribution
Loans	(368,263)	3,764,117	(766,584)	1,009,373	3,638,643
Other assets	(547,999)	1,080,387	(1,494,453)	(1,131,838)	(2,093,903)
TOTAL ASSETS	**(916,262)**	**4,844,504**	**(2,261,037)**	**(122,465)**	**1,544,740**
Deposits	1,311,926	462,021	(30,788)	(1)	1,743,158
Other liabilities	(1,684,403)	2,959,450	(807,216)	(745,271)	(277,439)
TOTAL LIABILITIES	**(372,476)**	**3,421,471**	**(838,004)**	**(745,372)**	**1,465,719**
Net interest income and similar income	(130,175)	266,960	-	21,436	158,221
Fee income	(154,336)	365,818	-	2,000	213,482
Gains on financial assets measured at fair value through profit or loss	299,369	50,731	-	24,257	374,357
Net exchange gains	(5,391)	41,156	-	(33,783)	1,982
Other operating income	(69,684)	83,590	(373,624)	-	(359,718)
TOTAL OPERATING INCOME BEFORE IMPAIRMENT LOSS ON FINANCIAL ASSETS	**(60,217)**	**808,255**	**(373,624)**	**13,910**	**388,324**
Net impairment loss on financial assets	(19,667)	(53,860)	-	(46,342)	(119,869)
SUBTOTAL	**(79,884)**	**754,395**	**(373,624)**	**(32,432)**	**268,455**
Total operating expenses	(16,329)	(182,204)	4,259	4,153	(190,121)
INCOME BEFORE INCOME TAX	**(96,213)**	**572,191**	**(369,365)**	**(28,279)**	**78,334**

(2) None of these subsidiaries met the quantitative threshold for reportable segments.

Marcelo A. Iadarola Executive Manager of Administration, Accounting and Taxes	Juan D. Mazzón Superintendent Finance, Administration and Public Sector Area	João Carlos de Nóbrega Pecego President

(In thousands of Argentine pesos)

	Individuals segment	Companies segment	Financial and Government segment	Treasury	Other without distribution (1)	Total as of 12/31/2015
Loans	8,426,534	22,323,345	2,016,942	-	5,050,593	37,817,414
Other assets	980,429	297,213	1,585,794	21,782,364	(3,248,794)	21,397,006
TOTAL ASSETS	**9,406,963**	**22,620,558**	**3,602,736**	**21,782,364**	**1,801,799**	**59,214,420**
Deposits	16,762,781	12,304,014	10,502,342	-	2,481,988	42,051,125
Other liabilities	10,846	8,641	2,257,790	7,273,372	(732,548)	8,818,101
TOTAL LIABILITIES	**16,773,627**	**12,312,655**	**12,760,132**	**7,273,372**	**1,749,440**	**50,869,226**
Net interest income and similar income	651,134	3,425,422	(932,983)	1,176	321,795	3,466,544
Net fee income	856,188	857,787	128,533	-	106,915	1,949,423
Gains on financial assets measured at fair value through profit or loss	-	117,367	269,341	2,220,381	4,922	2,612,011
Net exchange gains	40,811	104,818	(3,361)	249,244	(55,748)	335,764
Other operating income	5,176	40,741	19,568	317,666	(346,756)	36,395
TOTAL OPERATING INCOME BEFORE IMPAIRMENT LOSS ON FINANCIAL ASSETS	**1,553,309**	**4,546,135**	**(518,902)**	**2,788,467**	**31,128**	**8,400,137**
Net impairment loss on financial assets	(104,173)	(158,390)	8,272	890	(34,022)	(287,423)
SUBTOTAL	**1,449,136**	**4,387,745**	**(510,630)**	**2,789,357**	**(2,894)**	**8,112,714**
Total operating expenses	-	-	-	(4,356,744)	(22,195)	(4,378,939)
OPERATING INCOME (LOSS) BEFORE INCOME TAX	**1,449,136**	**4,387,745**	**(510,630)**	**(1,567,387)**	**(25,089)**	**3,733,775**
Income tax expense						(1,311,141)
NET INCOME						**2,422,634**
Attributable to						
Parent company's shareholders						2,420,465
Non-controlling interests						2,169

(1) The breakdown of Other without distribution follows.

Marcelo A. Iadarola
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(In thousands of Argentine pesos)

	Reconciliation items from Management to regulatory information	Subsidiaries (2)	Consolidation adjustments and eliminations	IFRS adjustments	Total other without distribution
Loans	1,653,761	2,037,818	(300,429)	1,659,443	5,050,593
Other assets	2,519,058	929,718	(1,052,821)	(5,644,749)	(3,248,794)
TOTAL ASSETS	**4,172,819**	**2,967,536**	**(1,353,250)**	**(3,985,306)**	1,801,799
Deposits	2,481,988	407,590	(7,919)	(399,671)	2,481,988
Other liabilities	2,302,145	1,509,094	(294,479)	(4,249,308)	(732,548)
TOTAL LIABILITIES	**4,784,133**	**1,916,684**	**(302,398)**	**(4,648,979)**	1,749,440
Net interest income and similar income	61,781	261,285	-	(1,271)	321,795
Fee income	(134,020)	237,320	-	3,615	106,915
Gains on financial assets measured at fair value through profit or loss	(20,706)	45,659	-	(20,031)	4,922
Net exchange gains	8,752	(3,174)	-	(61,326)	(55,748)
Other operating income	(114,891)	1,335	(267,258)	34,058	(346,756)
TOTAL OPERATING INCOME BEFORE IMPAIRMENT LOSS ON FINANCIAL ASSETS	**(199,084)**	**542,425**	**(267,258)**	**(44,955)**	**31,128**
Net impairment loss on financial assets	(23,276)	(10,746)	-	-	(34,022)
SUBTOTAL	**(222,360)**	**531,679**	**(267,258)**	**(44,955)**	**(2,894)**
Total operating expenses	67,658	(124,994)	4,436	30,705	(22,195)
INCOME BEFORE INCOME TAX	**(154,702)**	**406,685**	**(262,822)**	**(14,250)**	**(25,089)**

(2) None of these subsidiaries met the quantitative threshold for reportable segments.

Information about geographical areas

The Group operates in Argentina and Uruguay. The following tables show the information about:

- The main components of total operating income before impairment loss on financial assets attributed to Argentina (the Bank's country of domicile) and to Uruguay, and
- Long lived asset other than financial instruments and deferred tax assets located in Argentina and Uruguay.

	Argentina	**Uruguay**	**12/31/2016**
Net interest income and similar income	4,496,146	3,057	4,499,203
Net fee income	2,602,799	3,746	2,606,545
Gains on financial assets measured at fair value through profit or loss	3,440,294	18,842	3,459,136
Net exchange gains	576,818	33,888	610,706
Other operating income	144,996	(1,198)	143,798
Total operating income before impairment loss on financial assets	**11,261,053**	**58,335**	**11,319,388**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Argentine pesos)

	Argentina	Uruguay	12/31/2015
Net interest income and similar income	3,464,771	1,773	3,466,544
Net fee income	1,944,473	4,950	1,949,423
Gains on financial assets measured at fair value through profit or loss	2,593,729	18,282	2,612,011
Net exchange gains	335,596	168	335,764
Other operating income	36,261	134	36,395
Total operating income before impairment loss on financial assets	**8,374,830**	**25,307**	**8,400,137**

	Argentina	Uruguay	12/31/2016
Property and equipment	832,413	6,459	838,872
Intangible assets	26,368	-	26,368
Total	**858,781**	**6,459**	**865,240**

	Argentina	Uruguay	12/31/2015
Property and equipment	554,354	5,722	560,076
Intangible assets	-	-	-
Total	**554,354**	**5,722**	**560,076**

Marcelo A. Iadarola
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President

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Argentine pesos)

NOTE 5: Interest income and similar income

	12/31/2016	12/31/2015
Loans	**10,209,002**	**7,593,478**
Notes	3,069,223	2,462,903
Overdrafts	2,252,539	1,635,898
Credit cards	1,329,811	1,009,347
Car loans	702,675	441,288
Loans to financial institutions	344,059	206,787
Finance lease	310,299	230,053
Repo transactions	106,959	136,169
Export pre-financing loans	34,329	6,748
Punitive damages	28,040	19,286
Mortgage loans	3,477	4,694
Other loans	2,027,591	1,440,305
Other receivables	19,390	13,913
Other financial assets at amortized cost	4,073	6,084
Other	4,498	2,112
	10,236,963	**7,615,587**

NOTE 6: Interest expenses and similar expenses

	12/31/2016	12/31/2015
Deposits	5,017,782	3,792,146
Corporate bonds	361,677	259,557
Financing facilities received from financial institutions	261,781	53,377
Other	96,520	43,963
	5,737,760	**4,149,043**

(In thousands of Argentine pesos)

NOTE 7: Fee income and expenses

	12/31/2016	12/31/2015
Fee income		
Credit and debit cards	1,125,471	887,198
Checking accounts	447,973	363,361
Insurance	443,090	258,868
Packages of products	250,629	182,561
Checks to be collected and items in custody	144,871	124,264
Foreign trade	143,057	89,664
Collections	131,098	101,929
Safe-deposit boxes	115,679	92,484
Trust activity (See Note 40)	110,779	82,021
Savings accounts	72,273	62,828
Custodian Agent (See Note 39)	16,104	13,416
Portfolio management and recovery process	65,571	43,413
Other	415,862	203,853
	3,482,457	**2,505,860**
Fee expenses		
Credit and debit cards	663,739	414,991
Salary crediting agreement	42,203	28,708
Other	169,970	112,738
	875,912	**556,437**

NOTE 8: Gains on financial assets measured at fair value through profit or loss

	12/31/2016	12/31/2015
Financial assets measured at fair value	3,231,973	2,303,668
Forward foreign currency transactions (see Note 20)	181,413	272,981
Cash dividends from shares	45,750	35,316
Interest rate swaps (see Note 20)	-	46
	3,459,136	**2,612,011**

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(In thousands of Argentine pesos)

NOTE 9: Net exchange gains

	12/31/2016	12/31/2015
Conversion into Argentine pesos of foreign currency assets and liabilities	162,793	220,923
Gains from purchase-sale of foreign currency	447,913	114,841
	610,706	**335,764**

NOTE 10: Other operating income

	12/31/2016	12/31/2015
Proceeds from credit card transactions	31,637	20,319
Proceeds from the sale of fixed assets and miscellaneous assets	5,695	4,376
Other	106,466	11,700
	143,798	**36,395**

NOTE 11: Personnel expenses

	12/31/2016	12/31/2015
Salaries	2,218,600	1,578,611
Social security contributions	468,866	337,092
Services to personnel	82,892	48,961
Personnel bonuses	71,060	41,851
Representation and per diem expenses	51,268	40,505
Administrative services hired	15,515	9,220
Severance payments	5,983	541
	2,914,184	**2,056,781**

NOTE 12: Other receivable losses and provisions

	12/31/2016	12/31/2015
Net allowances for other losses (see Note 22)	19,977	5,497
Provisions, net (see Note 30)	14,535	21,920
	34,512	**27,417**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Argentine pesos)

NOTE 13: Other operating expenses

	12/31/2016	12/31/2015
Turnover tax (1)	1,027,067	707,926
Maintenance, conservation and repair expenses	294,636	228,930
Armored vehicle services	211,077	127,373
Sundry taxes	169,302	104,247
Professional fees	160,962	86,061
Security services	159,915	123,916
Rentals	138,666	100,395
Contribution to the deposit guarantee fund	125,219	216,705
Electric power and communications	112,633	67,937
Tax on bank accounts debits and credits	104,846	108,165
Advertising and marketing	81,554	94,100
Courier cost	62,400	53,658
Directors' and supervisory auditors' fees	59,507	45,016
Cleaning expenses	49,147	36,149
Office supplies expenses	44,498	33,439
Other	178,537	121,223
	2,979,966	**2,255,240**

(1) As of December 2016, and 2015, this tax is related to interest income and similar income in the amounts of 764,783, and 515,810, respectively; to fee income in the amounts of 252,429 and 182,561, respectively; and to other income in the amounts of 9,855 and 9,555, respectively.

NOTE 14: Income tax

Amounts recognized as deferred tax assets and liabilities in respect of each type of temporary differences are as follows:

Description:	12/31/2015	Deferred tax (expense) gain	OCI	12/31/2016
Deferred tax assets:				
Loans	271,638	49,347	-	320,985
Other receivables	4,016	6,111	-	10,127
Other assets	2,467	569	-	3,036
Deposits	729	-	-	729
Corporate bonds	724	(724)	-	-
Other liabilities	54,738	20,404	(11,942)	63,200
Provisions	62,336	(2,762)	-	59,574
Total deferred assets	396,648	72,945	(11,942)	457,651
Deferred tax liabilities:				
Financial assets measured at fair value	(50,375)	(111,363)	-	(161,738)
Derivative financial instruments	-	-	-	-
Corporate bonds	-	(506)	-	(506)
Property and equipment	(18,909)	(37)	-	(18,946)
Total deferred liabilities	(69,284)	(111,906)	-	(181,190)
Net deferred tax assets at year-end	**327,364**	(38,961)	(11,942)	**276,461**

Marcelo A. Iadarola Executive Manager of Administration, Accounting and Taxes	Juan D. Mazzón Superintendent Finance, Administration and Public Sector Area	João Carlos de Nóbrega Pecego President

(In thousands of Argentine pesos)

Changes in net deferred tax assets during the years ended December 31, 2016, and 2015, are as follows:

Description	12/31/2016	12/31/2015
Net deferred tax assets at beginning of the year	327,364	317,478
Deferred tax (expense) gain	(38,961)	28,023
Recognized in translation reserve	(11,942)	(18,137)
Net deferred tax assets at year-end	**276,461**	**327,364**

The reconciliation of effective tax rate is disclosed as follows:

Description	12/31/2016	12/31/2015
Income before income tax	4,937,939	3,733,775
Statutory income tax rate	35%	35%
Tax on net income	1,728,279	1,306,821
Permanent differences:		
Income not subject to income tax	(40,576)	(12,140)
Expenses not deductible from taxable income	44,289	16,460
Total income tax expense	**1,731,992**	**1,311,141**

The breakdown of the income tax expense follows:

Description	12/31/2016	12/31/2015
Current tax expense	1,693,031	1,339,164
Deferred tax expense (gain)	38,961	(28,023)
Total income tax expense	**1,731,992**	**1,311,141**

At 31 December 2016, and 2015, there was a deferred tax liability of 4,903, and 4,329, respectively, for temporary differences of 14,000, and 12,369, respectively, related to investments in subsidiaries. However, this liability was not recognized because Banco Patagonia controls the dividend policy of its subsidiaries and is able to veto the payment of their dividends.

Minimum presumed income tax

Minimum presumed income tax was established by Law No. 25063 for a ten-year term for fiscal years ended as from December 31, 1998. At present, after successive extensions, such tax is effective through December 31, 2019. This tax is supplementary to the income tax because, whereas the latter is levied on taxable income for the year, minimum presumed income tax is a minimum levy on the potential income of certain productive assets at a 1% rate. Therefore, the Bank's tax liability will be represented by the higher of the two taxes. In the case of institutions governed by the Financial Institutions Law, the abovementioned law sets forth that they shall consider as taxable income 20% of their taxable assets, after deducting those assets defined as non-computable. However, should minimum presumed income tax exceed income tax in a given fiscal year, such excess may be computed as a credit towards future income taxes occurring in any of the next ten fiscal years, once the accumulated tax losses are exhausted.

As of December 31, 2016, and 2015, the amounts assessed for income tax were higher than those assessed for minimum presumed income tax for those years.

(In thousands of Argentine pesos)

The AFIP (Argentine Tax Authority) is empowered to review and correct, if necessary, the annual tax returns of all taxpayers in the five years following the year of filing. As a consequence, fiscal years 2011 to 2016 are open and subject to review by the tax authorities. In addition, as the Bank is categorized as “large taxpayer”, it is subject to permanent tax audits. As of the date of issuance of these financial statements, no further significant liabilities resulted from such reviews.

NOTE 15: Earnings per share

Basic and diluted earnings per share were calculated by dividing net income attributable to the shareholders holding common shares of Banco Patagonia S.A. by the weighted average number of outstanding common shares during the year. Capitalization of earnings or other similar forms of increasing the number of shares entail a share split under IFRS and, therefore, they have been considered as if they had been issued from the beginning of the earliest period presented, and such increases were applied retroactively to the calculation of “earnings per share”.

For the weighted average calculation of outstanding common shares, the number of shares at the beginning of year was adjusted by the number of common shares redeemed in the course of the year, if applicable, weighted by the number of days when they were outstanding.

As it was mentioned in the above paragraphs, the weighted average of outstanding common shares during the fiscal year ended December 31, 2015 includes the number of outstanding common shares at the beginning of the year and excludes the number of common shares that were acquired since March 27, 2012 under the Treasury Share Acquisition Plan (see Note 2).
The “diluted earnings per share” measures the yield of common shares considering the effect of other financial instruments that may be converted into shares. Given that the Bank has not issued financial instruments which have a dilutive effect on earnings per share, basic and diluted earnings per share are the same.

	12/31/2016	12/31/2015
Numerator:		
Net income attributable to parent company’s shareholders	3,202,797	2,420,465
Denominator:		
Weighted average of number of common shares for the year, adjusted by acquisition of treasury share - Face value	719,145,237	719,145,237
Basic and diluted earnings per share (In pesos)	4.4536	3.3658
Number of outstanding common shares at beginning of the year and as of year-end (see Note 2)	719,145,237	719,145,237

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(In thousands of Argentine pesos)

NOTE 16: Distribution of earnings and restrictions to the distribution of earnings

The Annual Shareholders' Meeting held on April 27, 2016 for fiscal year ended December 31, 2015, approved the following distribution of earnings:

Legal reserve	481,107
Optional Reserve – Future distribution of earnings	1,871,698
Cash dividends	52,728
Total	**2,405,533**

Furthermore, the Shareholders' Meeting held on July 25, 2016 resolved to increase the dividends in cash by 1,662,533, to reach the total amount requested of 1,715,261. The amount shall be allocated from the Option Reserve for future distribution of earnings.

Finally, on September 13, 2016, the Superintendence of Financial and Exchange Entities (SEFyC) of the BCRA authorized the payment of cash dividends, which were made available to the Bank's shareholders on September 30, 2016.

The legal reserve was set up in accordance with BCRA's provisions requiring that 20% of the profits for the year, recorded in the financial statements prepared as per the BCRA's standards, be allocated for that purpose.

The optional reserve for the future distribution of earnings was set up to comply with the provisions of CNV General Resolution No. 593/11, which states that after restoring the legal reserve and covering all losses of previous years, the allocation of retained earnings is to be resolved by the shareholders' meeting, which may decide to allocate them to the distribution of dividends, to capitalize them by issuing bonus shares, to set up reserves other than the legal reserve, or a potential combination of such options.

Restriction to the distribution of earnings

Pursuant to BCRA provisions, 20% of the earnings for the year shall be appropriated to the set-up of a legal reserve. Consequently, the next Shareholders' Meeting shall apply unappropriated retained earnings in the amount of 653,798 to increase the legal reserve balance.

Under the provisions of Law No. 25063, dividends distributed in cash or in kind, in excess of accumulated taxable income determined at the end of the fiscal year immediately prior to the date of payment or distribution will be subject to a 35% withholding tax rate as a one-off payment. The amount of income to be considered in each fiscal year shall be that resulting from deducting the amount of taxes paid for the year or years in which such income, or the relevant proportionate amount thereof, was originated or distributed plus dividends or earnings from corporations not considered when determining such income in the same fiscal years. Such distribution of dividends is not subject to the previously mentioned withholding because it does not exceed the earnings determined based on the application of the referred regulations.

BCRA's rules set forth the general procedure for the distribution of earnings. According to such procedure, a distribution may only be made with the express authorization of the BCRA, provided that there are no records of financial assistance from that entity due to illiquidity or shortfalls as regards minimum capital requirements or minimum cash requirements, and other sort of penalties imposed by specific regulators, which are deemed to be material, and/or where no corrective measures have been implemented, among other previous conditions included in the Communication that must be met.

(In thousands of Argentine pesos)

Additionally, earnings may only be distributed as long as a positive balance remains after deducting – on an off-balance sheet basis– from unappropriated retained earnings and the optional reserve for the future distribution of earnings, the amounts of the mandatory legal, statutory and/or special reserves, the positive net difference between the carrying amount and the market or present value reported by the BCRA, as applicable, of government securities and/or monetary regulation instruments governed by the BCRA, not stated at market value and the amounts capitalized due to legal proceedings related to deposits, among others.

The Bank shall verify whether after the distribution of earnings is conducted, a capital margin reserve on its assets weighed according to risk is maintained, which is added to the minimum capital requirement, and shall be set up exclusively with level 1 ordinary capital net of deductible items.

As provided for by General Resolution No. 593 of CNV, the Shareholders at the Meeting held to consider the annual financial statements shall resolve on the allocation of accumulated earnings of the Bank, through either the effective distribution of dividends, the capitalization thereof with the delivery of bonus shares, the setting up of optional reserves in addition to the Legal Reserve, or a combination of any of the aforementioned.

Finally, taking into account the information provided in this note, distributable earnings amount to 2,615,313, and it is proposed that they be allocated as follows:

- Optional Reserve – Future distribution of earnings	980,817
- Cash dividends	1,634,496
Total	2,615,313

The distribution of earnings is subject to approval of the Shareholders' General Meeting, and prior authorization from the SEFyC of the BCRA.

NOTE 17: Cash and cash equivalents

	12/31/2016	12/31/2015
Cash	2,489,434	2,887,536
BCRA – Current account (1)	7,416,575	5,678,629
Balances with other financial institutions (1)	979,191	1,033,643
	10,885,200	**9,599,808**

(1) As of December 31, 2016, and 2015, those accounts did not bear any interest.

(In thousands of Argentine pesos)

The table below includes a breakdown of the main financial institutions in which funds are deposited as of December 31, 2016, and 2015:

	12/31/2016	12/31/2015
Standard Chartered Bank	271,220	95,490
Wells Fargo Bank	203,597	572,105
Banco de la Nación Argentina	157,598	75,823
Citibank N.Y.	84,899	18,243
Bank of America	70,736	71,955
J.P. Morgan Chase Bank	57,133	15,444
Banco do Brasil S.A. - N.Y. (see Note 34)	38,718	72,027
Unicrédito Italiano S.p.A.	17,701	45,444
Banco Popular Español S.A.	11,713	3,983
Banco Central del Uruguay	10,873	63
Other	55,003	63,066
	979,191	**1,033,643**

Minimum cash requirements

The BCRA establishes different requirements that should be met by financial institutions regarding solvency, liquidity, maximum amount of loans that may be granted per customer and foreign currency positions, among others (see also Note 32).

The minimum cash requirement establishes that a financial institution shall keep a portion of deposits or obligations available and not appropriated to lending transactions.

The following table shows the items computed by the Bank and GPAT as minimum cash requirements, as provided for by the related BCRA regulations, as of December 31, 2016, and 2015:

Item	12/31/2016	12/31/2015
Due from the BCRA (Argentine Central Bank)		
BCRA – Current account - Unrestricted	7,416,575	5,678,629
BCRA – Special guarantee accounts - Restricted	641,528	393,039
	8,058,103	**6,071,668**

(In thousands of Argentine pesos)

NOTE 18: Special guarantee accounts

The Bank holds special guarantee accounts in the BCRA in connection with clearing house transactions and the like. Additionally, Banco Patagonia Uruguay S.A. I.F.E. holds deposits in the Central Bank of Uruguay in connection with the mandatory placement of assets in the Republic of Uruguay, in compliance with section 221 of the Compilation of Regulatory and Control Rules of the Financial System of the Central Bank of Uruguay. (See Note 35).

	12/31/2016	**12/31/2015**
BCRA – Special guarantee accounts	641,528	393,039
Central Bank of Uruguay – Special guarantee accounts	7,925	6,503
	649,453	**399,542**

(In thousands of Argentine pesos)

NOTE 19: Financial assets measured at fair value and measured at amortized cost

Financial assets measured at fair value:

Description	Maturity	Currency	Rate	Amortization	12/31/2016	12/31/2015
BCRA bills	From 01/04/16 to 07/19/17	ARS	Issuance with discount	Upon maturity	9,529,260	6,376,287
Treasury bills in USD maturity March 2017	03/20/17	USD	Issuance with discount	Upon maturity	1,258,529	-
Argentine Government Bond in USD 0.75%, maturity June 2017	06/09/17	USD	0,75%	Upon maturity	326,449	227,241
Treasury bills in USD maturity April 2017	04/03/17	USD	Issuance with discount	Upon maturity	299,740	-
International Bonds of the Republic of Argentina in USD 6.875% 2021	04/22/21	USD	6.875%	Upon maturity	224,884	-
Discount bonds in ARS + negative value GDP ARS	12/31/33	ARS	5.83% + cer	20 six-monthly installments	148,789	5,961
Argentine Government Bond USD 0.75% (BONAD 2017)	02/22/17	USD	0.75%	Upon maturity	126,787	97
Argentine Government Bond USD 0.75%	09/21/17	USD	0.75%	Upon maturity	126,251	430,429
Argentine Government Bond in ARS Badlar + 250 B.P. (BONAR 2019)	03/11/19	ARS	Badlar + 2.5%	Upon maturity	107,987	530,324
Argentine Treasury Bonds, maturity May 2017 (BONAC May 2017)	05/09/17	ARS	Variable	Upon maturity	104,570	-
Argentine Government Bond in USD 7% (BONAR X)	04/17/17	USD	7 %	Upon maturity	55,451	222,670
Secured Treasury bills of the Province of Neuquén Class I Series I	09/09/20	ARS	Badlar + 4.75%	4 quarterly installment	50,578	-
Nacional Treasury Bonds in ARS maturity July 2017	07/22/21	ARS	2.5% + cer	Upon maturity	43,110	-
Consolidation bond in ARS Series 8	10/04/22	ARS	Badlar	14 quarterly installment	28,643	96,317
Argentine Government Bond in ARS Badlar + 325 B.P. maturity 2020 (BONAR 20 B+325)	03/01/20	ARS	Badlar + 3.25%	Upon maturity	25,782	-
Par Bonds ARS Step Up V2038	12/31/38	ARS	1.18% + cer	20 six-month installments	25,253	205
Treasury bills in USD maturity March 2017	03/06/17	USD	Issuance with discount	Upon maturity	23,572	-
Nacional Treasury Bonds in ARS maturity 2018	03/05/18	ARS	22.75%	Upon maturity	18,428	-
Bills of the Province of Entre Ríos Series IX Class A	03/23/17	ARS	Issuance with discount	Upon maturity	17,621	-
BCRA bills (see Note 34)	From 01/13/16 to 01/20/16	USD	Issuance with discount	Upon maturity	-	448,185
Argentine Government Bond in ARS Badlar + 200 B.P. (BONAR 2017)	03/28/17	ARS	Badlar + 2%	Upon maturity	-	424,448
Argentine Treasury Bonds, maturity July 2016 (BONAC July 2016)	07/12/16	ARS	Variable	Upon maturity	-	388,036
Argentine Government Bond in ARS Badlar + 200 B.P. (BONAR 2016)	09/29/16	ARS	Badlar + 2%	Upon maturity	-	227,237
Argentine Government Bond in ARS Badlar + 300 B.P.	10/09/17	ARS	Badlar + 3%	Upon maturity	-	101,866
Argentine Treasury Bonds, maturity May 2016 (BONAC May 2016)	05/09/16	ARS	Variable	Upon maturity	-	41,465
Other (see Note 35)					99,613	88,343
					12,641,297	**9,609,111**

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Other financial assets at amortized cost:

Description	Maturity	Currency	Rate	Amortization	12/31/2016	12/31/2015
Argentine Bond for Economic Development (BAADE)	07/17/16	USD	4%	Upon maturity	-	111,885
					-	**111,885**

ARS : Argentine pesos
USD: US Dollars

The Bank's holdings are primarily composed of the financial assets described below:

1) LEBAC (BCRA bills): They are short-term securities offered by the monetary authority. LEBACs are issued at discount, as a zero-coupon bond, principal being fully amortized upon maturity with no interest payments.

2) Treasury Bills issued by the Argentine Government on December 5, 2016, in USD, fully amortized upon maturity on March 20, 2017, and interest at a discount.

3) Argentine Government Bond in USD 0.75% Maturity June 2017: bonds issued by the Argentine Government maturing on June 9, 2017. Principal will be completely paid off upon maturity, and interest will accrue at an annual, nominal, fixed rate of 0.75%, payable on a half-yearly basis.

4) Treasury Bills issued by the Argentine Government on , December 19, 2016, in USD, fully amortized upon maturity on April 3, 2017, and interest at a discount.

5) Argentine Government Bonds in USD 6.875% Maturity 2021: bonds issued by the Argentine Government maturing on April 22, 2021. Principal will be completely paid off upon maturity, and interest will accrue at an annual, nominal, fixed rate of 6.875%, payable on a half-yearly basis.

6) Discount bonds + GDP-linked in ARS: bonds in pesos issued by the Argentine Government maturing on December 31, 2033. Principal will be paid off in 20 half-yearly installments starting on June 30, 2024. Each of the payments will include the capitalized amounts adjusted by CER, accrued before the first date of amortization. Accrue interest at an annual, nominal, fixed rate of 5.83% paid on a half-yearly basis. A portion of the interest accrued before December 31, 2013 will be paid in cash and another portion will be capitalized. The portion of interest to be capitalized is added to the amount of the principal on securities.

7) Argentine Government Bond in USD 0.75% (BONAD 2017 0.75%): bonds issued by the Argentine Government maturing on February 22, 2017. Principal will be completely paid off upon maturity, and interest will accrue at an annual, nominal, fixed rate of 0.75%, payable on a half-yearly basis.

8) Argentine Government Bond linked to the USD (BONAD 2017): bonds issued by the Argentine Government on September 21, 2015, in United Sates dollars, maturing on September 21, 2017. They accrue interest at an annual nominal rate of 0.75 % payable on a half-yearly basis until maturity.

9) Argentine Government Bond (BONAR 2019): On March 8, 2013, the Treasury and Finance Departments issued Joint Resolutions No. 35/2013 and No. 11/2013 to introduce a debt swap involving certain secured loans that would be swapped for a new bond or promissory note called

"Argentine Government Bond or Promissory Note in ARS Private BADLAR + 250 bps maturing in 2019" to be issued on March 11, 2013. Maturity Such Bond would be completely amortized upon maturity on March 11, 2019. The quarterly interest rate to be paid equals the private Badlar rate plus 250 basis points spread.

10) Argentine Treasury bonds, maturity May 2017 (BONAC May 2017): they are bonds issued by the Argentine Treasury on May 9, 2016. Final maturity: May 9, 2016. They accrue interest at a variable rate equivalent to the simple average of implicit interest rates of the BCRA internal bills in ARS. Interest will be payable on a quarterly basis until maturity.

11) Argentine Government Bond in USD 7% (BONAR X): They are US dollar-denominated bonds issued by the Argentine Government maturing on April 17, 2017. Principal will be completely paid off upon maturity, and interest will accrue at an annual, nominal, fixed rate of 7%, payable on a half-yearly basis.

12) Secured Treasury Bills of the Province of Neuquén Class 1 Series 1: treasury bills of the Province of Neuquen Series 1 Class 1 were issued on September 9, 2016, maturing at 48 months. They accrue interest at an annual interest rate equivalent to the private Badlar rate plus 475 basis points spread. Amortization is made in four installments at a nominal rate of 25%.

13) Argentine Treasury Bonds (BONCER 2021) in pesos adjusted by CER 2021, amortization fully upon maturity on July 22, 2021. Interest is calculated over adjusted balances as from the date of issuance at an annual rate of 2.5% paid half-yearly on 01/22 and 07/22 each year.

14) Social Security Debt Consolidation Bonds in pesos, 8th Series: bonds issued by the National Treasury to pay off debts with beneficiaries of the retirement and pension public system. The eighth series refers to a 2010 issue in national currency, maturing on October 4, 2022 (in 12 years and 9 months). Amortization is made in fourteen quarterly, equal and consecutive installments, the first two equivalent to 5% each, the next eleven equivalent to 7% and the last one equivalent to 13%, as from July 4, 2019. Interest is calculated as per the Badlar rate and payable on a quarterly basis as from July 4, 2014. Interest is quarterly capitalized as from the issuance date.

15) Argentine Government Bond in ARS (BONAR 20 B + 325): bonds in pesos issued by the Argentine Government, maturing on March 1, 2020. The quarterly interest rate to be paid equals the private Badlar rate plus 325 basis points spread.

16) Badlar rates are calculated by the BCRA based on a sample of the interest rates paid by financial institutions to depositors for 30 to 35-day deposits exceeding 1 million pesos or dollars.

17) Argentine Government Bond in Pesos Stet up 2038: bonds were issued on December 31, 2003 maturing on December 31, 2038. Amortization will be made in 20 consecutive installments. The first 19 half-annual installments will be paid on March 31 and September 30 each year, starting on September 30, 2029 and the last installment will be paid on December 31, 2038. The annual nominal interest rate is 1.18% and the principal is adjusted by CER.

18) Treasury Bills issued by the Argentine Government in USD, fully amortized upon maturity on March 6, 2017, and interest at a discount.

19) Argentine Treasury Bond in ARS at a fixed rate: bonds issued by the Argentine Government on September 5, 2016, fully amortized upon maturity on March 5, 2018. They accrue interest at a fixed, annual, nominal rate of 22.75%, payable on a half-yearly basis as from March 5, 2017.

20) Treasury Bills of the Province of Entre Ríos: the treasury bills of the Province of Entre Rios Series IX Class A in pesos were issued on November 24, 2016, maturing in 119 days on March 23, 2017, and interest at a discount.

NOTE 20: Derivative financial instruments

In the ordinary course of business, the Bank entered into forward instruments with daily or monthly settlement of differences without delivery of the underlying assets, as well as interest rates swap. Both types of instruments are measured at fair value through profit or loss. Gains or losses on changes in fair values are recognized in the Consolidated Statement of Profit or Loss. Such transactions do not qualify as hedging as per IAS 39.

Notional values as of December 31, 2016, and 2015, in thousands of the original currency, are broken down as follows:

	Notional value as of	
	12/31/2016	**12/31/2015**
Forward purchases of foreign currency	USD 94,066	USD 500,100
Forward sales of foreign currency	USD 156,369	USD 496,262

As of December 31, 2015 interest rate swap instruments resulted in a gain of 46 (see Note 8).

The fair value of forward transactions with daily settlement is zero because of the difference between the agreed-upon and market values with impact on profit or loss. As of December 31, 2016, and 2015, the fair value of forward transactions with monthly settlement is 10,312, and 52,859, respectively, for the transactions that resulted in balances receivable, and of 11,606 and 910,938 as of December 31, 2016 and 2015 for the transactions that resulted in balances payable.

Gains on forward foreign currency instruments as of December 31, 2016, and 2015 amounted to 181,413 and 272,981, respectively (see Note 8).

(In thousands of Argentine pesos)

NOTE 21: Loans

Loans are classified as "Financial assets measured at amortized cost":

	12/31/2016	12/31/2015
Notes	15,926,974	13,164,058
Overdrafts	5,129,774	6,743,509
Credit cards	7,371,433	5,328,437
Consumer loans	6,158,502	4,109,044
Car loans	3,266,836	2,000,553
Export pre-financing loans	2,251,947	35,058
Finance lease	1,445,127	1,278,433
Loans to financial institutions	1,416,542	977,552
Loans to car dealers	899,809	468,481
Amounts receivable from repo transactions with financial institutions	614,863	2,729,780
Loans granted to Public Sector Agencies	433,351	424,513
Mortgage loans	72,996	45,894
Amounts receivable from the sale of securities to non-financial institutions	32,809	-
Amounts receivable from repo transactions with non-financial institutions	16,393	-
Other loans	1,235,618	881,403
Interest and similar items receivable	658,671	500,047
Total loans	46,931,615	38,686,762
Allowances for loan losses	(1,042,724)	(869,348)
Total	**45,888,891**	**37,817,414**

Loans by type as of December 31, 2016, and 2015 are as follows:

	12/31/2016	12/31/2015
Commercial loans	28,152,086	26,241,184
Consumer loans	18,706,563	12,399,684
Mortgage loans	72,966	45,894
Total	**46,931,615**	**38,686,762**

Interest rates for loans are established based on the existing market rates as of the date on which they are granted.

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of Administration, Accounting and Taxes	Finance, Administration and Public Sector Area	

(In thousands of Argentine pesos)

Finance lease

The following table shows the total gross investment in finance lease and the present value of minimum payments to be received therefrom:

Finance lease	12/31/2016		12/31/2015	
Term	**Total gross investment**	**Present value of minimum lease payments**	**Total gross investment**	**Present value of minimum lease payments**
Up to 1 year	821,572	540,660	686,249	466,587
From 1 to 5 years	1,121,028	919,248	1,004,340	822,125
More than 5 years	539	406	1,650	1,373
	1,943,139	**1,460,314**	**1,692,239**	**1,290,085**

	12/31/2016	12/31/2015
Capital	1,445,127	1,278,433
Interest receivable	15,187	11,652
Total	**1,460,314**	**1,290,085**

As of December 31, 2016, and 2015, unearned finance income amounted to 482,825, and 402,154, respectively, and accumulated allowances for loan losses amounted to 25,450, and 22,070, respectively.

Allowances for loan losses

Changes in allowances by type of loan	Mortgage loans	Consumer loans	Commercial loans	Total
Balances as of January 1, 2016	1,629	576,353	291,366	869,348
Provisions made during the year	174	365,815	80,820	446,809
Provisions used during the year	(489)	(179,817)	(93,127)	(273,433)
Balances as of December 31, 2016	**1,314**	**762,351**	**279,059**	**1,042,724**
Assessment				
Collectively assessed allowances	865	469,652	184,861	655,378
ndividually assessed allowances	449	292,699	94,198	387,346
	1,314	**762,351**	**279,059**	**1,042,724**

(In thousands of Argentine pesos)

Changes in allowances by type of loan	Mortgage loans	Consumer loans	Commercial loans	Total
As of January 1, 2015	1,397	542,502	258,391	802,290
Provisions made during the year	986	222,955	142,244	366,185
Provisions used during the year	(754)	(189,104)	(109,269)	(299,127)
As of December 31, 2015	**1,629**	**576,353**	**291,366**	**869,348**
Assessment				
Collectively assessed allowances	1,037	340,952	157,535	499,524
Individually assessed allowances	592	235,401	133,831	369,824
	1,629	**576,353**	**291,366**	**869,348**

The following is a reconciliation of allowances for loan losses individually and collectively assessed:

	12/31/2016			12/31/2015		
	Collectively assessed allowances	Individually assessed allowances	Total	Collectively assessed allowances	Individually assessed allowances	Total
At the beginning of the year	499,524	369,824	869,348	372,491	429,799	802,290
Loan losses for the year, net of recoveries	156,717	290,092	446,809	140,640	225,545	366,185
Provisions used during the year	(863)	(272,570)	(273,433)	(13,607)	(285,520)	(299,127)
At year-end	655,378	387,346	1,042,724	499,524	369,824	869,348

The net impairment loss on financial assets broken down as follows:

	12/31/2016	12/31/2015
Loan losses for the year	(446,809)	(366,185)
Recovery of loans	78,466	78,762
Net impairment loss on financial assets for the year	(368,343)	(287,423)

Contingent obligations

The Bank’s credit policy includes granting guarantees, letters of credit and loan commitments to fulfill customers’ specific financial needs. These transactions expose the Bank to additional credit risks.

(In thousands of Argentine pesos)

As of December 31, 2016, and 2015, the Bank has issued guarantees, loan commitments and letters of credit as follows:

	12/31/2016	12/31/2015
Unused agreed overdrafts	2,180,698	1,183,005
Unused credit card limits	15,128,449	9,076,772
Guarantees granted	510,363	587,790
Obligations from foreign trade transactions	204,103	268,613
Letters of credit	164,359	103,197
	18,187,972	**11,219,377**

These instruments are initially recognized at their fair value, which is the fee received, under "Other liabilities".

The risks related to the contingent obligations are evaluated and monitored under the Bank's credit risk policy mentioned in Note 38.

NOTE 22: Other receivables

Other receivables are classified as "Financial assets measured at amortized cost".

	12/31/2016	12/31/2015
Sundry receivables	104,589	109,034
Corporate bonds purchased (1)	70,999	132,570
Trust securities (2)	824	10,670
Other receivables – sale of Property and equipment	-	512
Other	226,363	151,169
	402,775	403,955
Allowance for other receivables losses	(36,107)	(18,890)
	366,668	**385,065**

(1) As of December 31, 2016,and 2015, the corporate bonds purchased in local currency accrue interest at a weighted average rate of 24.34%, and 23.60%, respectively, and have a weighted average term of 8, and 11 months, respectively. In addition, holdings in US dollars accrue interest at an annual nominal rate of 3.88%, and 3.31%, respectively, and have a weighted average term of 1, and 14 months, respectively.

(2) As of December 31, 2016, and 2015, effective trust securities are receivables with fixed installments earning interest at a weighted average, annual, nominal rate of 22.18%, and 27.59%, respectively, the weighted average term of which is 1, and 5 months, respectively.

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The following are the changes in the allowance for other receivables losses:

	12/31/2016	12/31/2015
At the beginning of the year	18,890	16,881
Loan losses for the year (see Note 12)	19,977	5,497
Provisions used during the year	(2,760)	(3,488)
At year-end	**36,107**	**18,890**

NOTE 23: Property and equipment

The table below shows a breakdown of Property and equipment:

	Land and buildings	Furniture and fixtures	Machinery and equipment	Vehicles and aircraft	Other miscellaneous assets(1)	Total as of 12/31/2016
Estimated useful life in years	50	10	5	5	5 - 50	
Cost:						
As of January 1, 2016	**280,438**	**104,423**	**188,009**	**23,889**	**197,176**	**793,935**
Additions	69,944	30,077	213,811	3,366	73,659	390,857
Disposals	-	(754)	(3,767)	(959)	(27,321)	(32,801)
Transfers	-	(1,232)	1,232	-	-	-
As of December 31, 2016	**350,382**	**132,514**	**399,285**	**26,296**	**243,514**	**1,151,991**
Accumulated depreciation:						
As of January 1, 2016	**47,752**	**53,416**	**110,358**	**14,508**	**7,825**	**233,859**
Disposals	-	(322)	(1,878)	(799)	(96)	(3,095)
Depreciation for the year	6,601	9,321	49,070	2,973	14,390	82,355
As of December 31, 2016	**54,353**	**62,415**	**157,550**	**16,682**	**22,119**	**313,119**
Net carrying value as of December 31, 2016	**296,029**	**70,099**	**241,735**	**9,614**	**221,395**	**838,872**

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(In thousands of Argentine pesos)

	Land and buildings	Furniture and fixtures	Machinery and equipment	Vehicles and aircraft	Other miscellaneous assets(1)	Total as of 12/31/2015
Estimated useful life in years	50	10	5	5	5 - 50	
Cost:						
As of January 1, 2015	**214,611**	**83,236**	**148,315**	**19,056**	**101,223**	**566,441**
Additions	24,581	21,561	40,527	6,522	137,576	230,767
Disposals	-	(374)	(833)	(1,689)	(377)	(3,273)
Transfers	41,246	-	-	-	(41,246)	-
As of December 31, 2015	**280,438**	**104,423**	**188,009**	**23,889**	**197,176**	**793,935**
Accumulated depreciation:						
As of January 1, 2015	**41,521**	**46,437**	**86,910**	**13,906**	**7,552**	**196,326**
Disposals	-	-	(486)	(1,388)	(94)	(1,968)
Depreciation for the year	6,231	6,979	23,934	1,990	367	39,501
As of December 31, 2015	**47,752**	**53,416**	**110,358**	**14,508**	**7,825**	**233,859**
Net carrying value as of December 31, 2015	**232,686**	**51,007**	**77,651**	**9,381**	**189,351**	**560,076**

(1) Includes the assets that the Bank does not currently use in branches' operations, amounting to 42,390, and 36,506 as of December 31, 2016, and 2015, respectively. The potential sale of which Management is currently analyzing and that still do not comply with the conditions set forth in IFRS 5 for them to be considered as non-current assets held for sale. The residual value of those assets does not exceed their recoverable value.

NOTE 24: Intangible assets

Intangible assets relate to the cost of development of systems, the changes of which are shown in the following table:

Changes in Intangible Assets	Total as of 12/31/2016
Cost:	
As of January 1, 2016	-
Additions	28,457
As of December 31, 2016	**28,457**
Accumulated amortization:	
As of January 1, 2016	-
Amortization for the year	2,089
As of December 31, 2016	**2,089**
Net carrying value as of December 31, 2016	**26,368**

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(In thousands of Argentine pesos)

NOTE 25: Other assets

	12/31/2016	12/31/2015
Financial assets	**220,864**	**176,114**
Security deposits (see Note 35)	214,908	167,042
Other	5.956	9,072
Non-financial assets	**190,136**	**175,182**
Advance payments	155,194	109,213
Prepayments for purchases of assets	20,869	55,206
Works of art	5,878	3,350
Other	8,195	7,413
	411,000	**351,296**

NOTE 26: Financing facilities received from financial institutions

	12/31/2016	12/31/2015
Standard Chartered Bank	428,684	137,704
Foreign Trade Bank of Latin America Inc.	339,477	-
International Finance Corporation	325,705	-
Intesa Sanpaolo	232,336	61,834
Proparco (Société de Promotion et de Participation pour la Coopération Economique)	216,067	227,933
Banco de Inversión y Comercio Exterior	179,679	-
Banco de Galicia y Buenos Aires S.A.	135,490	143,500
BNP Paribas S.A.	114,795	26,460
Banco Pichincha	72,828	-
Caixabank	64,777	-
Wells Fargo Bank	62,256	-
Banco Bradesco	60,226	-
Banco do Brasil S.A. – N.Y. (see Note 34)	-	1,726,619
Other	230,901	297,286
	2,463,221	**2,621,336**

They relate mainly to pre-financing of exports without guarantees, agreed at variable nominal rates. Transactions in local currency accrue interest at a weighted average annual nominal rate of 25%. Transactions in foreign currency accrue interest at a weighted average annual nominal rate of 4%.

During fiscal years 2016, and 2015, the Group has not defaulted on the payment of principal and interest relating to the financing received from financial institutions. In addition, it has not defaulted on covenants and other promises related to such financing.

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NOTE 27: Deposits

Deposit are classified as "Financial liabilities measured at amortized cost":

	12/31/2016	12/31/2015
Nonfinancial public sector	**3,297,391**	**2,791,670**
Checking accounts	1,623,215	1,316,717
Time deposits	1,421,568	1,240,919
Other	228,299	202,686
Interest payable	24,309	31,348
Financial sector (See Note 34)	**6,029**	**31,678**
Nonfinancial private sector and foreign residents	**48,916,225**	**39,227,777**
Checking accounts	7,104,149	5,990,938
Savings accounts	18,272,215	10,751,776
Time deposits	21,329,100	20,409,674
Other	1,782,986	1,662,775
Interest and similar items payable	427,775	412,614
	52,219,645	**42,051,125**

Deposit guarantee

Law No. 24485 and Decree No. 540/95 created a Deposit Guarantee Insurance System to provide coverage for risks inherent in bank deposits, supplementary to the bank deposit privileges and protection system established by the Financial Entities Law. This system shall cover the deposits in Argentine pesos and foreign currency with the participating entities, such as checking accounts, savings accounts, time deposits or any other determined by the BCRA, as long as the requirements under Decree No. 540/95 and any other established by the applicable authorities are met.

As of December 31, 2016, and 2015, such deposit guarantee amounts to 19,211,329, and 11,500,753, respectively.

NOTE 28: Corporate bonds

Corporate bonds are classified as "Financial liabilities measured at amortized cost":

	12/31/2016	12/31/2015
Banco Patagonia S.A.	348,989	351,957
GPAT Compañía Financiera S.A.	1,233,763	742,651
	1,582,752	**1,094,608**

1. Banco Patagonia S.A.´s corporate bond issuance program approved by CNV on October 25, 2012

The Annual Shareholders' Meeting of Banco Patagonia S.A., held on April 26, 2012, approved the creation of a Global Program for the Issue of Simple Corporate Bonds for a maximum amount, outstanding at any time, of up to USD 250,000,000 or its equivalent in other currencies.

The Program has a duration of 5 years as from CNV's authorization or for the maximum term that may be established by future applicable regulations; in that case, the Board of Directors of Bank may decide to extend the effective term thereof.

In addition, the Bank's Board of Directors decided that the funds from corporate bonds issued under such Program shall be used for one or more of the purposes under section 36, Law No. 23576, and BCRA Communication "A" 3046, or as established in applicable regulations, depending on the related pricing appendix.

Under the abovementioned program, on December 3, 2012, the Bank issued Class 1 Series 1 of the simple corporate bonds with a face value of ARS 200,000,000, maturing within 18 months and amortized in a single payment on the maturity date. This series accrued interest at a floating annual rate equivalent to the "Private BADLAR Rate" plus a spread rate of 4%, payable quarterly in arrears. The series final maturity was on June 3, 2014.

On November 1, 2013, the Bank issued Class II Corporate Bonds with a face value of ARS 300,000,000, for an 18-month term and amortized in a single payment on the expiration date. The accrual of interest is at a floating annual rate equivalent to the "Private BADLAR Rate" plus a spread rate of 3.9%, payable quarterly in arrears. The series final maturity was on May 4, 2015.

As of March 31, 2014, the Bank's Board of Directors approved the issuance of Class III Corporate Bonds in the maximum amount of ARS 350,000,000 (nominal value) to be conducted under the Global Program for the Issuance of Simple Corporate Bonds in force.

Subsequently, on January 26, 2015, the Bank's Board of Directors approved the update of the Corporate Bond Issuance Prospectus under the Global Program for the Issuance of Simple Corporate Bonds, extending the maximum amount of issuance of Class III Corporate Bonds up to ARS 500,000,000 (nominal value), such extension was approved by the CNV on July 8, 2015.

Finally, on July 21, 2015, the Bank issued Class III corporate bonds with a nominal value of ARS 332,200,000, for an 18-month term and amortized in a single payment on the expiration date. During the first nine months, accrual of interest will be at an annual fixed rate of 25.50% and, for the following nine months, at an annual floating rate equivalent to the "Private BADLAR Rate" plus a spread of 3.75%, payable quarterly in arrears.

As of December 31, 2016, and 2015, principal plus accrued interest amounted to 348,989, and 351,957, respectively.

Subsequently, on January 23, 2017, the Bank paid the principal and interest on such corporate bond.

2. GPAT´s Global corporate bond issuance program approved by CNV on February 11, 2011

The Argentine Securities Commission Resolution No. 15868, dated April 30, 2008, authorized the initial public offering of GPAT Compañía Financiera S.A. (ex GMAC Compañía Financiera S.A.) through the establishment of a global program for the issuance of simple, non-convertible into shares, corporate bonds up to the amount of four hundred million pesos (ARS 400,000,000) or the equivalent thereof in other currencies.

(In thousands of Argentine pesos)

On July 24, 2008, the Argentine Securities Commission was informed that the Corporate Bonds subscription period would be suspended and that GPAT may, at its sole discretion, restart it.

On January 4, 2001, the Board of Directors of GPAT, taking into account the analysis made of the funding sources to which it currently resorts as compared to alternative financing instruments, including the issuance of short-term corporate bonds, decided to revive the simple corporate bonds program and to make an addendum to the Prospectus that had been duly published. Additionally, the Board decided to apply to the CNV for authorization of the global program of corporate bonds and the issuance of short-term corporate bonds under such Program.

On January 26, 2012, the Board of Directors of GPAT requested the CNV to enlarge the program from 400,000 to 800,000, being approved by the CNV on February 28, 2012.

Lately, on October 25, 2012, the CNV approved the enlargement of GPAT's global program for the issuance of corporate bonds from 800,000 to 1,500,000 and its extension for a 5-year term as from the above date. Funds obtained under this issuance were applied to grant consumer loans.

On December 14, 2015 the Board of Directors of GPAT approved the issuance of Corporate Bonds Series XXI in the maximum amount of 250,000.

The following is a detail of the issuance of Corporate Bonds of GPAT Compañía Financiera S.A. as of December 31, 2016 and 2015:

Issuance	Currency	Issued value	Annual nominal rate	Issuance date	Maturity date	Balance as of 12/31/2016	Balance as of 12/31/2015
Series XVII Class B	ARS	185,556	Badlar + 3,25 %	07/22/2014	01/22/2016	-	194,190
Series XVIII Class B	ARS	90,769	Badlar + 3,00 %	09/23/2014	03/23/2016	-	91,283
Series XIX Class A	ARS	200,000	26,35%	06/16/2015	03/16/2016	-	202,061
Series XX Mixed Class	ARS	250,000	28,50% (03.11.2016) Badlar + 4,25 %	09/11/2015	03/11/2017	116,424	255,117
Series XXI Class B	ARS	250,000	Badlar +425 b.p..	01/22/2016	07/22/2017	262,311	-
Series XXII Class B	ARS	155,000	Badlar +500 b.p..	04/08/2016	10/08/2017	163,439	-
Series XXIII Class A	ARS	106,500	32.00% (09.14.2016) Badlar +325 b.p..	06/14/2016	12/14/2017	104,339	-
Series XXIII Class B	ARS	188,889	33.00% (09.14.2016) Badlar +350 b.p..	06/14/2016	06/14/2019	180,216	-
Series XXIV	ARS	200,000	23.95%	09/23/2016	09/23/2017	200,650	-
Series XXV	ARS	221,000	24.00%	08/11/2016	08/05/2018	206,384	-
						1,233,763	**742,651**

b.p.: Basis points

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NOTE 29: Other liabilities

	12/31/2016	12/31/2015
Financial liabilities	**3,360,806**	**2,370,722**
Credit card charges payable	1,940,435	1,216,022
Payables from foreign trade transactions	512,777	553,551
Collections on account and on behalf of third parties	483,679	267,330
Sundry payables	173,056	150,128
Other financial liabilities (1)	250,859	183,691
Nonfinancial liabilities	**2,357,799**	**1,678,277**
Taxes payable	1,560,244	1,082,051
Payroll and social security contributions	594,373	441,640
Withholdings on salaries	58,720	25,396
Customer loyalty program (Note 3.3.s))	104,564	74,668
Other nonfinancial liabilities	39,898	54,522
	5,718,605	**4,048,999**

(1) Includes credit facilities initially recognized at fair value of the fee received amounting to 28 as of December 31, 2016, and 2015, respectively.

NOTE 30: Provisions

They have been set up to cover the amounts estimated necessary to face risks of probable occurrence, which, if verified, will result in a loss to the Group. The table below shows a breakdown of changes in those provisions during fiscal years 2016, and 2015:

	Provisions		
Changes in provisions	**Labor and legal (1)**	**Other (2)**	**Total**
As of January 1, 2016	87,152	55,068	142,220
Net expense for the year (See Note 12)	12,965	1,570	14,535
Provisions used during the year	(11,954)	(4,167)	(16,121)
As of December 31, 2016	**88,163**	**52,471**	**140,634**
Maturity of provisions			
Less than 12 months	7,201	654	7,855
Over 12 months	80,962	51,817	132,779
As of December 31, 2016	**88,163**	**52,471**	**140,634**

	Provisions		
Changes in provisions	**Labor and legal (1)**	**Other (2)**	**Total**
As of January 1, 2015	87,553	5,609	93,162
Net expense for the year (See Note 12)	18,596	3,324	21,920
Provisions used during the year	(18,997)	(9)	(19,006)
Other	-	46,144	46,144
As of December 31, 2015	**87,152**	**55,068**	**142,220**

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Maturity of provisions			
Less than 12 months	12,421	7,848	20,269
Over 12 months	74,131	47,220	121,951
As of December 31, 2015	**87,152**	**55,068**	**142,220**

(1) Due to the nature of its business, the Group has several pending lawsuits, for which provisions are set up when, in the opinion of Management and its legal counsel, it is likely that they may result in an additional liability and the amount may be reasonably estimated. According to the Group's Management and its legal counsel, no provision has been set up for all other legal actions against the Group because they will not result in additional liabilities to those already recorded or will not have a material impact on these consolidated financial statements.

(2) They have been mainly set up to cover the amounts estimated necessary to face tax exposures.

Group's Management and its legal counsel consider that in the cases where the possibility of any outflow in settlement is possible, none of these matters are material and there are no significant effects other than those disclosed in these consolidated financial statements.

NOTE 31: Shareholders' equity reserves

In the Translation reserve, foreign exchange differences arising from the conversion of Banco Patagonia (Uruguay) S.A.I.F.E.'s financial statements are recorded.

The Bank sets up the Legal Reserve in accordance with BCRA regulations that establish that 20% of income for the year obtained as established by BCRA regulations must be allocated to the legal reserve (see Note 16).

Additionally, the Bank sets up under Other Reserves:

- the Repurchase of shares reserve (see Note 2); and
- the Optional reserve to comply with the provisions of CNV General Resolution No. 593/11, establishing that after the restoration of the legal reserve and full coverage of prior year's losses, retained earnings allocation is to be expressly resolved by the shareholders' meeting, which may decide to distribute cash dividends, dividends in shares, set up reserves other than the legal reserve, or a combination of such decisions.

NOTE 32: Minimum Capital Requirements

The BCRA establishes that the financial institutions shall meet, on an individual and consolidated basis, the minimal capital requirements ("minimum capital"), defined for credit, market and operational risks purposes.

The Bank's capital management is primarily focused on ensuring that the Bank meets all externally set capital requirements while keeping strong credit ratings and sound capital ratios to sustain its business and maximize the shareholders' value.

The Bank manages its capital structure and adjusts it to the changes in economic conditions and the risk inherent to its activities. To keep or adjust the capital structure, the Bank may adjust the amount of the dividends paid to shareholders, reimburse the capital to the shareholders or issue securities. There were no changes in goals, policies or processes regarding the previous fiscal years.

(In thousands of Argentine pesos)

Regarding this requirement, the Bank has a surplus, which accounts for the amount in excess of the mandatory consolidated minimum capital established by the BCRA. Consequently, the Bank considers that it has the appropriate capital to meet its current and reasonably foreseeable needs.

The Bank's required consolidated minimum capital and consolidated capital calculated under BCRA regulations are broken down in the following table:

Breakdown	**12/31/2016**	**12/31/2015**
Credit risk (1)	4,134,464	3,068,955
Market risk (2)	141,807	262,049
Operational risk (3)	1,174,754	894,728
Default (4)	-	40,945
Mandatory consolidated minimum capital as per BCRA regulations	**5,451,025**	**4,266,677**
Ordinary Capital Level 1 (5)	8,809,290	7,313,694
Deductible items OC L1 (6)	(75,859)	(28,446)
Ordinary Capital Level 2 (7)	452,887	344,314
Consolidated computable equity as per BCRA regulations	**9,186,318**	**7,629,562**
Capital surplus	**3,735,293**	**3,362,885**

(1) It is the capital requirement needed to cover credit risk calculated with a formula based on weighing several financing transactions according to the associated risk.

(2) It represents the addition of different amounts necessary to cover market risk by category of assets. Compliance is daily calculated.

(3) The operational risk-based minimum capital requirement is 15% on the average net interest and fee income, and other profits over the last 36 months. If applicable, extraordinary income from interests in other financial institutions, recovered receivables and the set-up or reversal of miscellaneous provisions shall be deducted from such amount. No deduction of administrative expenses and loan allowances is allowed.

(4) In June 2015, the SEFyC notified the Bank about an excess in the limit on the credit rating technical ratio in the amount of 53,647 between May 2014 and October 2014 and in the amount of 27,297 between January 2013 and June 2015. The excess referred to above gave rise to an increase in the minimum capital requirements in an amount equivalent to 150% of the highest amount of the excess recorded in those periods, and for the months during which the excess was maintained, and, additionally, once the excess was corrected, for a number of months equivalent to the number of periods during which the excess occurred and was not timely reported by the Bank. In addition, during certain days of the period ranging from January to June 2016, the Bank recorded an excess of the credit limit requirements of the public sector in the amount of 382,982. Subsequently, on August 4, 2016, the BCRA issued Communication "A" 6035 related to the admission of excesses of the credit limit requirements of the public sector for temporary advances and the excess of the maximum term to grant those advances, under the related regulation. To the date of issuance of these financial statements, no such events have taken place.

(In thousands of Argentine pesos)

(5) It is made up of Share capital, non-capitalized contributions, adjustments to equity, appropriated retained earnings, unappropriated retained earnings, other income or loss, non-controlling interests held by third parties, and debt instruments with certain issuance conditions.

(6) If applicable, Minimum Presumed Income Tax credit balance, interest related to the application of tax payment deferral, due from correspondents and other demand deposits with banks and other foreign financial institutions not classified with an “investment grade”, debt instruments not physically held by the Bank, securities issued by foreign country governments, the classification of which is lower than that assigned to federal government securities, shareholders, real property pending deed of title, organization costs, items pending allocation and other.

(7) Securities issued by the Entity, not included in item (6), additional paid-in capital of such securities, allowances for loan losses related to debtors regularly performing (situation 1) and financing secured with class "A" preferred guarantees, and securities issued by subsidiaries, held by third parties, subject to consolidated supervision

NOTE 33: Operating leases

The Bank leases a number of branch premises under operating leases. The leases typically run for a period of 5 years, with an option to renew the leases after that date. Lease payments are increased every year to reflect market rentals.

As of December 31, 2016, and 2015 the future minimum lease payments under non-cancellable operating leases were payable as follows:

	12/31/2016	12/31/2015
Up to 1 year	119,840	96,624
From 1 to 5 years	180,236	167,710
More than 5 years	174	1,096
Total	**300,250**	**265,430**

Operating lease expenses recognized in profit or loss (which includes the contingent rent expense) amounts, to 117,765, and 86,581 as of December 31, 2016, and 2015, respectively. These amounts are part of “Other Operating Expenses – Rentals”.

(In thousands of Argentine pesos)

NOTE 34: Related party information

All transactions and balances with related parties (individuals and companies related to the Bank) are described below.

Banco do Brasil S.A.

Banco do Brasil S.A. is a financial institution organized under the laws of Brazil and is the Entity's majority shareholder, as mentioned in Note 2.1.

	2016		2015	
	Balances	Highest balance of the year (1)	Balances	Highest balance of the year (1)
Correspondent	38,718	60,857	72,034	134,521
Other receivables	79,694	107,148	90,606	90,606
Deposits	213	24,041	24,651	24,651
Financing facilities received from financial institutions	-	1,731,561	1,726,619	1,726,619
Guarantees granted (2)	30,179	30,179	44,762	47,762
Guarantees received (3)	58,646	178,280	221,085	221,085

(1) Due to the high quantity of operations, the Bank considers the highest balance of the year as the better indicator of the transactions made during the year.
(2) Corresponds to guarantees granted to Banco do Brasil.
(3) Corresponds to stand-by letter of credits granted by Banco do Brasil granted to the Banco Patagonia customers.

Transactions with Banco do Brasil are performed on arm's length principle.

Province of Río Negro

As provided in the Bank's by laws, the province of Río Negro, sole shareholder holding Class A shares, is empowered to appoint a director for Class A shares, as long as it owns, at least, one share of that class. Since 1996, the Bank has been acting as financial agent (see Note 41) of the Province of Río Negro.

	2016		2015	
	Balances	Highest balance of the year (1)	Balances	Highest balance of the year (1)
Province of Rio Negro bonds	226	227	228	229
Overdrafts	-	909,585	712,481	712,481
Syndicated loan	216,856	254,177	253,333	253,333
Notes	-	-	-	1,420
Deposits	57,580	950,470	130,366	1,981,469

(1) Due to the high quantity of operations, the Bank considers the highest balance of the year as the better indicator of the transactions made during the year.

(In thousands of Argentine pesos)

Likewise, on December 4, 2015, Banco Patagonia S.A., granted a syndicated loan to the province of Río Negro, in which the Bank is a participant and arranger, in the amount of 250,000 at a 34.76% annual nominal interest rate, maturing in December 2019.

Key management personnel

Pursuant to IAS 24, key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly. According to that definition, Directors are deemed as key personnel by the Bank.

The quantity of Directors, ranging from seven to nine, is established by the Shareholders' Meeting. They are elected for a term of office of three years with the possibility of indefinite reelection. At present, the Bank's Board of Directors is made up of nine members.

Section 9 of the Bylaws sets forth that the Directors' fees are established by the Shareholders' Meeting, taking into account their responsibilities, the time devoted to the fulfillment of duties, their experience and professional reputation and the value of services provided by directors for the Bank's performance in the market. Additionally, Directors do not assume any executive positions at the Bank and, therefore, they do not earn any other remuneration, and the Bank's policy does not contemplate the possibility of granting other benefits such as equity participations.

In the following table shows transactions and balances with key management personnel of the Bank, including close members of their family, and entities in which these people has control, common control or significant influence.

	2016		2015	
	Balance at year end	Highest balance for the year (1)	Balance at year end	Highest balance for the year (1)
Overdrafts	-	2,729	4,404	20,139
Notes	-	27,035	27,035	45,644
Guarantees granted	119	119	98	98
Other receivables	-	-	-	74
Other loans	153	274	282	292
Credit cards	1,301	1,345	896	905
Deposits	12,213	12,213	13,160	14,305

(1) Due to the high quantity of operations, the Bank considers the highest balance of the year as the better indicator of the transactions made during the year.

These loans and deposits were granted subject to market conditions applied to the remaining Bank's customers.

The total fees received by the Bank's Directors during fiscal years 2016, and 2015 amounted to 54,332, and 41,647, respectively.

(In thousands of Argentine pesos)

NOTE 35: Restricted assets

	12/31/2016	12/31/2015
Special guarantee accounts (See Note 18) (1)	649,453	399,542
Financial assets measured at fair value		
BCRA Bills (1)	137,810	183,095
Government securities – IADB loan – Global Credit Program for micro-, small- and medium-sized enterprises (2)	111,910	-
BCRA Bills (4)	12,642	-
Argentine Government Bond in ARS Private Badlar + 325 (4)	2,297	-
Share of Mercado de Valores S.A. (3)	2,064	2,064
Argentine Government Bond in ARS Private Badlar + 250 P.B. (BONAR 2019) (1)	-	102,120
Argentine Government Bond in USD Maturity 2024 (4)	-	3,020
Par Bonds in $ Maturity 2038 (4)	-	1,012
Guarantees at credit card managers	189,215	139,522
Other security deposits	15,276	15,291
Court deposits	10,417	9,083
Security deposits for leases	-	3,146
Other	95,468	-
TOTAL	**1,226,552**	**857,895**

(1) They are used as security for the transaction with the BCRA and Over-the-Counter Market. Deposits with the Central Bank of Uruguay are used as security for compliance with section 393, Compilation of Central Bank of Uruguay's Financial System Regulation and Control Rules.

(2) Securing the IADB loan No. 1192/OC-AR (Communications "A" 4620, "B" 8920 and supplementary standards of the BCRA) of the Global Credit Program for micro, small- and medium-sized enterprises.

(3) Patagonia Valores holds a share in Mercado de Valores S.A. as security for the transactions performed thereby.

(4) They are used as security for repurchase agreements.

The Bank's Management believes that there will be no losses arising from the restrictions on the abovementioned assets.

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NOTE 36: Loans and deposits concentration

Number of customers	Loans			
	12/31/2016		12/31/2015	
	Outstanding amount	%	Outstanding amount	%
10 largest customers	4,660,442	9.93%	5,718,227	14.78%
50 next largest customers	7,942,434	16.92%	7,161,410	18.51%
100 next largest customers	6,002,303	12.79%	4,843,793	12.52%
Rest of customers	28,326,436	60.36%	20,963,332	54.19%
Total (See Note 21)	**46,931,615**	**100.00%**	**38,686,762**	**100.00%**

Number of customers	Deposits			
	12/31/2016		12/31/2015	
	Outstanding amount	%	Outstanding amount	%
10 largest customers	5,258,463	10.07%	6,217,709	14.79%
50 next largest customers	5,489,787	10.51%	6,472,148	15.39%
100 next largest customers	3,278,081	6.28%	3,342,281	7.95%
Rest of customers	38,193,314	73.14%	26,018,987	61.87%
Total (See Note 27)	**52,219,645**	**100.00%**	**42,051,125**	**100.00%**

(In thousands of Argentine pesos)

NOTE 37: Fair value of financial instruments

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When a financial instrument is sold on a liquid and active market, the price traded on the market in an actual transaction provides the best evidence of its fair value. When there is no established market price or it does not indicate the fair value of the instrument, the fair value can be determined by using the market value of another instrument of similar characteristics, the analysis of discounted cash flows or other applicable techniques, which may be affected by the assumptions used.

Although Management has used its best judgment to estimate the fair value of its financial instruments, any technique to make such estimate implies certain inherent limitations. In conclusion, the fair value could not indicate the net realizable or settlement value.

Determining fair value and its hierarchy

The Bank uses the following hierarchy to determine the fair value of its financial instruments:

a) Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
b) Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).
c) Level 3: inputs that are unobservable.

The following table shows the analysis of financial instruments measured at fair value by hierarchy level:

Financial Instruments	**Level 1**	**Level 2**	**Level 3**	**Total as of 12/31/2016**
Financial assets measured at fair value	1,348,127	11,293,170	-	12,641,297
Derivative financial instruments		10,312	-	10,312
TOTAL ASSETS	**1,348,127**	**11,303,482**	**-**	**12,651,609**
Derivative financial instruments	11,606	-	-	11,606
TOTAL LIABILITIES	**11,606**	**-**	**-**	**11,606**

Financial Instruments	**Level 1**	**Level 2**	**Level 3**	**Total as of 12/31/2015**
Financial assets measured at fair value	5,899,926	3,709,185	-	9,609,111
Derivative financial instruments	-	52,859	-	52,859
TOTAL ASSETS	**5,899,926**	**3,762,044**	**-**	**9,661,970**
Derivative financial instruments	910,938	-	-	910,938
TOTAL LIABILITIES	**910,938**	**-**	**-**	**910,938**

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Below is a description of the financial instruments measured at fair value using valuation techniques based on observable market data:

Financial assets measured at fair value: As of December 31, 2016, this account includes mainly unlisted BCRA Bills, Treasury bills in USD and Argentine Government Bonds in USD 0.75%, and as of December 31, 2015, unlisted BCRA Bills, Debt securities of the Province of Entre Ríos, Chubut and Neuquén, which are measured at fair value using yield curves for securities related to the same type of instrument, with the regular and habitual quoted price and of similar duration.

Derivative financial instruments: As of December 31, 2016 and 2015 it includes forward instruments with monthly settlement estimated as the difference between the agreed-upon values and market prices.

Transfers between hierarchy levels

	Transfers from level 1 to level 2	
	12/31/2016	**12/31/2015**
Financial assets measured at fair value (1)	380,406	18,656

(1) The amount as of December 31, 2016 is mainly related to holdings of Argentine Government Bonds in USD 0.75%, Consolidation Bonds Series 8 and Par Bonds in $ Step Up, included in hierarchy level 1 as of December 31, 2015, which as of December 31, 2016, were measured at fair value using yield curves for securities related to the same type of instrument, with the regular and habitual quoted price and of similar duration.

The amount as of December 31, 2015 corresponds to the Consolidation Bonds Series 4 and Debt Securities of the Province of Neuquén, included in hierarchy level 1 as of December 31, 2014, which as of December 31, 2015, were measured at fair value using yield curves for securities related to the same type of instrument, with the regular and habitual quoted price and of similar duration.

Fair value of financial assets and liabilities measured at amortized cost

Below we describe the methodologies and assumptions used to determine the fair values of financial instruments:

Assets whose fair value is similar to the carrying amount
For financial assets and liabilities that are liquid or have short-term maturities (less than three months), it is considered that the carrying amount is similar to the fair value.

Fixed-rate financial instruments
The fair value of financial assets was determined by discounting future cash flows at the current market rates offered for each year, for financial instruments of similar characteristics. The estimated fair value of fixed-interest rate deposits was determined by discounting future cash flows by using market interest rates for deposits with maturities similar to those of the Bank's portfolio.

For the listed assets and listed liabilities, the fair value is determined based on market prices.

(In thousands of Argentine pesos)

Other financial instruments

In the case of financial assets and liabilities that are liquid or with short-term maturity, it is estimated that their fair value is similar to their carrying amount. This assumption is also applied to savings accounts, checking accounts and other deposits.

The following table shows a comparison between the fair value and the carrying amount of financial instruments not measured at fair value.

	Total as of 12/31/2016				
	Level 1	**Level 2**	**Level 3**	**Fair value Total**	**Carrying amount**
Financial assets					
Cash and cash equivalents	-	-	-	(1)	10,885,200
Special guarantee accounts	-	-	-	(1)	649,453
Loans	-	-	43,373,682	43,373,682	45,888,891
Other receivables	-	-	355,843	355,843	366,668
Other financial assets	-	-	-	(1)	220,864
Financial liabilities					
Financing facilities received from financial institutions	-	-	-	(1)	2,463,221
Deposits	-	-	52,015,143	52,015,143	52,219,645
Corporate bonds	-	-	1,379,393	1,379,393	1,582,752
Other financial liabilities	-	-	-	(1)	3,360,806

	Total as of 12/31/2015				
	Level 1	**Level 2**	**Level 3**	**Fair value Total**	**Carrying amount**
Financial assets					
Cash and cash equivalents	-	-	-	(1)	9,599,808
Special guarantee accounts	-	-	-	(1)	399,542
Other financial Assets at amortized cost	-	123,403	-	123,403	111,885
Loans	-	-	35,699,114	35,699,114	37,817,414
Other receivables	-	-	360,926	360,926	385,065
Other financial assets	-	-	-	(1)	176,114
Financial liabilities					
Financing facilities received from financial institutions	-	-	-	(1)	2,621,336
Deposits	-	-	41,868,910	41,868,910	42,051,125
Corporate bonds	-	-	924,278	924,278	1,094,608
Other financial liabilities	-	-	-	(1)	2,370,722

(1) The Group has not disclosed the fair value for short-term financial instruments, because their carrying amounts are a reasonable approximation of fair value.

NOTE 38: Risk management policy

Risks are inherent to the Bank's activities and are managed through a process for the continuous identification, measurement and control thereof, subject to limits and other risk controls. This risk management process is critical for the Bank's profitability.

The Bank is managed and controlled by the Board of Directors. The quantity of directors, ranging from seven to nine, is established by the Shareholders' Meeting. They are elected for a term of office of three years with the possibility of indefinite reelection.

The Board of Directors is in charge of managing the Bank and takes all decisions necessary to such end. It is responsible for implementing the decisions adopted by the Shareholders at the Meeting, performing the tasks particularly delegated to it by the shareholders and developing the business strategy by approving the general and particular policies aimed at adequately managing the business. Its objectives are, among others, coordinating and supervising whether operations are consistent with the institutional objectives, facilitating business performance with efficiency, control and productivity, for the purposes of generating permanent improvement in administrative and commercial processes.

Credit risk

Credit risk is defined as the possibility to sustain losses as a result of a debtor's or counterparty's noncompliance with the contractual obligations assumed.

The Board of Directors approves the credit policies in order to provide a framework for the creation of businesses to attain an adequate relationship between the risk assumed and profitability of transactions.

These policies establish limits, procedures, mitigation strategies, and controls to keep exposure to this risk within acceptable limits. These aspects are established in internal manuals and rules (Credits, Guarantees, Recovery and Risk Management), which are regularly reviewed and updated.

In particular, the definition of risk limits is one of the main strategic instruments of credit risk management, the purpose of which is to avoid undesired concentration and levels of exposure.

Moreover, management of this kind of risk is based on an analysis of the transactions and a deep knowledge of the client portfolio, which allows for a detailed follow-up on such risk, minimizing exposure as far as possible.

The procedural manuals that contain the guidelines on the matter, compliance with current regulations, and the prescribed limits have the following purposes, among others:

a) achieving proper portfolio segmentation by type of client and economic sector;
b) boosting the use of the risk analysis and assessment tools that best adjust to the client's profile;
c) setting consistent standards for granting loans, following conservative parameters based on clients' solvency, cash flows and profitability in the case of companies, and revenues and equity in the case of individuals;
d) setting limits to individual powers to grant loans depending on the amount, promoting the existence of specific committees that, according to their area of competence, will be in charge of defining assistance levels;
e) optimizing the quality of risks assumed, having appropriate guarantees according to the loan term and the level of risk involved;
f) monitoring the loan portfolio and the level of clients' compliance on an ongoing basis.

In order to evaluate the credit risk, the Credit Analysis Areas, accountable to the Credit Executive Management, based on the analysis of the Company's financial position, industry sector, repayment capacity, projections and characteristics, among other aspects, issue a report describing the main risks to which the Company is exposed and which may potentially compromise its ability to duly face commitments. Based on that report, the Commercial Area prepares a rating proposal, which is discussed at a Credit Committee.

According to the amounts and guarantees, rating proposals are analyzed by various areas, depending on the credit attributes delegated to each Credit Committee. It is to note that decisions are taken jointly, and at least one officer of the commercial area and another officer of the credit area take part in decisions within the various committees. There are no individual credit attributes.

Specifically, the Standard Segment clients are rated through screening methods resulting from internal and external behavior models. The Bank's policies establish that special cases may be individually analyzed, also requiring the participation of line authority depending on the financing to be agreed upon.

In relation to loan commitments (i.e. overdrafts and credit card limits), the Bank monitors the customers behavior considering the products granted by the Bank and taking into account information provided by the rest of the financial system. In the particular case of credit cards, cards are suspended for use in case the customer shows a delinquency in payments of 14 days or more in any product granted by the Bank.

Finally, it is noteworthy that the Bank uses various guarantees for the financing facilities granted to mitigate the credit risk.

The guarantees granted, letters of credit and foreign trade transaction obligations are assessed and an allowance is recorded in the same manner as that of the loan portfolio. The credit risk in these transactions is defined as the likelihood of occurrence of a loss because one of the parties to a contingent transaction does not comply with the terms set out in the agreement. The credit loss risk is represented by the amounts established in the related agreements.

Individually assessed allowances

Banco Patagonia assesses the appropriate allowances for each significant loan on an individual basis. The matters considered upon determining the amounts of the allowance include the counterparty's business plan, its capacity to improve profitability once the financial difficulty arises, projected inflows, percentage of net earnings intended for the payment of dividends, in case of bankruptcy, another financial support available, the realizable value of the guarantee and the term of expected cash flows. Impairment losses are assessed at year-end.

Allowances collectively assessed

Allowances are collectively assessed in the event of loan losses that are not individually significant. Allowances are assessed and set up at year-end.

The collective assessment considers the impairment of the portfolio although there is still no objective evidence of impairment in an individual assessment. Impairment losses are estimated considering historical losses with respect to the portfolios.

Loan follow-up and review

The verification of the request formal aspects, the implementation of the related guarantees, and the control over payments regularly made are part of the loan follow-up process.

(In thousands of Argentine pesos)

In this respect, after 16 days and up to 90 days from the delay in the payment, the collection efforts are delegated to the Default Management area and the Branches network, which –considering the specific characteristics of each case– is required to serve notices and perform the procedures aimed at obtaining the repayment of the loan, as well as propose refinancing subject to the client's repayment capacity.

If this goal is not be achieved, the loan will move through the “delinquency” stage, in which the Bank’s credit recovery management intensifies collection efforts in order to obtain the repayment from debtors. Depending on the loan amount and guarantees, the use of court procedures will be decided.

Credit risk management of investments in financial assets

The Bank evaluates the credit risk identified in each of the financial assets invested by analyzing the risk rating given by a rating agency. These financial instruments are primarily concentrated in deposits at top tier financial institutions and government securities issued by the Argentine Federal Government and bills issued by the BCRA, which are listed on active markets.

Below is the exposure percentage by issuer calculated on the total financial assets disclosed in Note 19:

Security	Issuer	Percentage 2016	Percentage 2015	
Government securities issued by the Argentine government and by provincial governments	Argentine government	25%	29%	a)
Bills issued by the BCRA	BCRA	75%	71%	b)

a) Treasury Bills in USD and International Bonds of the Republic of Argentina in USD are the Bank’s main holding of government securities issued by the Argentine Government. The Argentine Government has timely and duly paid principal and interest in the original currency, as defined in the issuance conditions of such securities. To the date of issuance of these financial statements, there are no indications that make us assume that in the future the Issuer of those securities will fail to meet its obligations.
b) Related to short-term debt instruments issued by the BCRA.

Regarding all financial assets, their book value best represents the maximum credit risk exposure.

Management relies on the capacity to continue to control and keep a minimum credit risk exposure for the Bank as a result of its portfolio of loans and financial assets based on the following:

- ✓ 99% of the loan portfolio is classified into the two upper levels of the internal classification system as of December 31, 2016, and 2015;
- ✓ 92%, 94% and 91% of the loan portfolio is considered not to be past due or impaired as of December 31, 2016, and 2015, respectively.

(In thousands of Argentine pesos)

Below is shown the maximum credit risk exposure that arises from the Bank´s financial assets:

	Note	12/31/2016	12/31/2015
Financial assets measured at fair value	19	12,641,297	9,609,111
Other financial assets at amortized cost	19	-	111,885
Derivative financial instruments	20	10,312	52,859
Loans	21	46,931,615	38,686,762
Other receivables	22	402,775	403,955
Other financial assets	25	220,864	176,114
		60,206,863	*49,040,686*
Off balance sheet			
Unused agreed overdrafts	21	2,180,698	1,183,005
Unused credit card limits	21	15,128,449	9,076,772
Guarantees granted	21	510,363	587,790
Obligations from foreign trade transactions	21	204,103	268,613
Letters of credit	21	164,359	103,197
		18,187,972	*11,219,377*
Total		**78,394,835**	**60,260,063**

Loan quality by sector

The Bank manages the quality of loans through ratings established by the BCRA, as mentioned above.

	Neither delinquent nor impaired	**Delinquent Not impaired**	**Impaired**	**Total as of 12/31/2016**
Commercial loans	27,567,484	456,290	128,312	28,152,086
Mortgage loans	71,329	1,035	602	72,966
Consumer loans	15,365,301	2,972,832	368,430	18,706,563
Total	**43,004,114**	**3,430,157**	**497,344**	**46,931,615**

	Neither delinquent nor impaired	**Delinquent Not impaired**	**Impaired**	**Total as of 12/31/2015**
Commercial loans	25,776,712	323,780	140,692	26,241,184
Mortgage loans	44,083	1,105	706	45,894
Consumer loans	10,631,062	1,476,909	291,713	12,399,684
Total	**36,451,857**	**1,801,794**	**433,111**	**38,686,762**

The other financial assets are neither delinquent nor impaired.

(In thousands of Argentine pesos)

Aging analysis of delinquent loans but not impaired (in days):

	Delinquent, not impaired				Total as of 12/31/2016
	Up to 30	**From 31 to 60**	**From 61 to 90**	**Over 90**	
Commercial loans	434,933	19,361	1,600	396	456,290
Mortgage loans	895	101	40	-	1,036
Consumer loans	2,700,623	191,195	80,784	229	2,972,831
TOTAL	**3,136,451**	**210,657**	**82,424**	**625**	**3,430,157**

	Delinquent, not impaired				Total as of 12/31/2015
	Up to 30	**From 31 to 60**	**From 61 to 90**	**Over 90**	
Commercial loans	287,956	33,823	981	1,020	323,780
Mortgage loans	873	218	14	-	1,105
Consumer loans	1,353,305	88,635	34,955	14	1,476,909
TOTAL	**1,642,134**	**122,676**	**35,950**	**1,034**	**1,801,794**

Collateral hold by the Bank

The following table shows collaterals kept by the Bank at each reporting period.

	12/31/2016	12/31/2015
Financial assets	1,274,223	978,438
Non-financial assets	3,404,473	3,412,924

Financial assets hold as collateral consist of cash and cash equivalents, short-term deposits, automatic export reimbursements, guarantees issued by foreign Banks (with high credit rates).

Non-financial assets hold as collateral consist of mortgages and pledged vehicles and machinery.

Any amount received by the sale of the asset in excess of the customer debt at the sale date, should be reimbursed to the customer.

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Offsetting of financial assets and financial liabilities

The following table shows financial liabilities and financial assets subject to offsetting, enforceable master netting arrangements and similar arrangements as of December 31, 2016, and 2015.

December 31, 2016	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Related amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral pledged	
Sale-and-purchase, securities lending and similar agreements	135,238	150,547	(15,309)			(15,309)
Total	135,238	150,547	(15,309)			(15,309)

December 31, 2016	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Related amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral pledged	
Reverse sale-and-purchase, securities borrowing and similar agreements	453,900	494,912	(41,012)	-	-	(41,012)
Total	453,900	494,912	(41,012)	-	-	(41,012)

December 31, 2015	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Related amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral pledged	
Sale-and-purchase, securities lending and similar agreements	35,612	40,320	(4,708)	-	-	(4,708)
Total	35,612	40,320	(4,708)	-	-	(4,708)

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December 31, 2015	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Related amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral pledged	
Reverse sale-and-purchase, securities borrowing and similar agreements	2,585,632	2,873,457	(287,825)	-	-	(287,825)
Total	2,585,632	2,873,457	(287,825)	-	-	(287,825)

Liquidity risk

Liquidity risk is defined as the risk of imbalances occurring between assets and liabilities (“mismatches” between payments and collections) that could affect the Bank's ability to meet all of its current and future financial obligations, within various timeframes, taking into consideration the different currencies and settlement terms of rights and obligations, without incurring significant losses.

The Bank has policies on liquidity in place, which are aimed at managing liquidity efficiently, optimizing costs and diversifying funding sources, maximizing profits from placements through a prudent management that secures the funds necessary to continue operating as well as compliance with applicable regulations.

In order to minimize the liquidity risk, the Bank keeps a high-liquidity assets portfolio, and it intends to diversify its liabilities structure as regards sources and instruments. In this respect, the objective is to attract funds from as many clients and in many volumes as possible, offering the greatest diversity of financial instruments.

Moreover, the Bank has implemented a series of risk measurement and control tools, including the regular monitoring of liquidity gaps, broken down by currency, as well as various liquidity ratios, including the LCR (liquidity coverage ratio).

The most significant aspects of the policies are the following:

- Assets: a high-liquidity assets portfolio will be maintained to cover at least 30% of total liabilities, comprising deposits, corporate bonds issued by the Bank, repurchase agreements and the financial and interbank loans taken out, maturing before a 30-day term.

- Liabilities: in order to minimize the unintended effects of illiquidity deriving from the possible withdrawal of deposits and the repayment of interbank loans taken, the Bank seeks to properly diversify financing sources to enable the regular availability of funds to adequately comply with its obligations under different market conditions.

For this purpose, the Bank has implemented the following policies, the follow-up and control of which are under the responsibility of the Finance Committee:

a) Giving priority to the attraction of retail deposits in order to have a largely diversified portfolio, avoiding the risk of concentrating the portfolio in a few investors.

(In thousands of Argentine pesos)

b) The interest held in the time deposit portfolio of institutional investors (foreign investors, mutual funds, insurance companies and pension fund managers) shall not exceed 70% of the total time deposit portfolio.

c) No investor may have time deposits for an amount exceeding 8% of the total time deposit portfolio, except for the Argentine Social Security Regulator (ANSES), whose limit amounts to 15% of total time deposits, though no such deposits were recorded to date.

The Executive Risk Management Department regularly monitors compliance with the different limits set by the Board of Directors in relation to liquidity risk management, which include minimum and admissible liquidity levels, maximum concentration levels by type of product, client, and segment.

For the remaining risks, the Bank has contingency planning processes.

The following table shows the liquidity ratios during fiscal years 2016, and 2015 which arise from dividing net liquid assets, made up of cash, due from the BCRA, due from other financial institutions, repo transactions involving government securities, BCRA bills and other financial assets measured at fair value, by total deposits.

	12/31/2016	12/31/2015
	%	%
As of December 31	45.3	52.4
Average for the year	45.5	52.5
Higher	50.6	57.0
Lower	42.9	48.6

The following table shows the breakdown of financial assets and liabilities by contractual maturity, considering the total amounts at their due date:

	On demand	**Less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total as of 12/31/2016**
Cash and cash equivalents	10,885,200	-	-	-	-	10,885,200
Special guarantee accounts in Central Banks	649,453	-	-	-	-	649,453
Financial assets measured at fair value	196	8,532,316	3,887,278	473,708	49,479	12,942,977
Derivative financial instruments	-	10,312	-	-	-	10,312
Loans	5,556,647	16,952,439	12,891,965	18,835,715	304,644	54,541,410
Other receivables	294,852	44,163	21,978	5,675	-	366,668
Other financial assets	220,864	-	-	-	-	220,864
Total	**17,607,212**	**25,539,230**	**16,801,221**	**19,315,098**	**354,123**	**79,616,884**
Financing facilities received from financial institutions	-	776,354	881,693	805,174	-	2,463,221
Derivative financial instruments	-	11,606	-	-		11,606
Deposits	25,807,596	26,010,273	1,189,109	9,943	-	53,016,921
Corporate bonds	-	534,118	904,881	509,281	-	1,948,280
Other financial liabilities	2,745	3,355,057	1,329	1,675	-	3,360,806
Total	**25,810,341**	**30,687,408**	**2,977,012**	**1,326,073**	**-**	**60,800,834**

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	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total as of 12/31/2015
Cash and cash equivalents	9,599,808	-	-	-	-	9,599,808
Special guarantee accounts in Central Banks	399,542	-	-	-	-	399,542
Financial assets measured at fair value	10	5,927,067	2,424,269	2,865,129	72,121	11,288.596
Other financial assets at amortized cost	-	2,247	112,115	-	-	114,362
Derivative financial instruments	-	52,859	-	-	-	52,859
Loans	7,515,716	17,186,093	15,748,954	2,636,297	120,917	43,207,977
Other receivables	241,832	7,213	99,438	37,947	-	386,430
Other financial assets	176,114	-	-	-	-	176,114
Total	**17,933,022**	**23,175,479**	**18,384,776**	**5,539,373**	**193,038**	**65,225,688**
Financing facilities received from financial institutions	-	1,152,831	1,148,464	447,757	-	2,749,052
Derivative financial instruments	-	910,938	-	-		910,938
Deposits	17,142,385	23,479,498	2,655,476	4,356	-	43,281,715
Corporate bonds	-	539,682	251,043	492,505	-	1,283,230
Other financial liabilities	1,271	2,363,969	1,942	3,540	-	2,370,722
Total	**17,143,656**	**28,446,918**	**4,056,925**	**948,158**	**-**	**50,595,657**

The following table shows the breakdown of the Bank's contingent obligations by contractual maturity considering the total amounts at their due date:

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Total as of 12/31/2016
Unused agreed overdrafts	2,180,698	-	-	-	-	-	-	2,180,698
Unused credit card limits	15,128,449							15,128,449
Guarantees granted	102,777	23,200	38,351	52,521	237,467	56,046	-	510,362
Obligations from foreign trade transactions	24,563	43,204	75,849	18,320	42,169	-	-	204,105
Letters of credit	101,409	41,238	21,712	-	-	-	-	164,359
TOTAL	17,537,896	107,642	135,912	70,841	279,636	56,046	-	18,187,973

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	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Total as of 12/31/2015
Unused agreed overdrafts	1,183,005	-	-	-	-	-	-	1,183,005
Unused credit card limits	9,076,772							9,076,772
Guarantees granted	134,367	11,700	20,068	66,706	240,211	114,738	-	587,790
Obligations from foreign trade transactions	74,989	101,841	52,874	21,290	17,619	-	-	268,613
Letters of credit	50,277	40,488	10,004	2,428	-	-	-	103,197
TOTAL	10,519,410	154,029	82,946	90,424	257,830	114,738	-	11,219,377

The following table provides the carrying amount of financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date:

	12/31/2016	12/31/2015
Financial assets		
Financial assets measured at fair value	696,350	2,071,951
Financial assets measured at amortized cost	-	-
Loans	15,345,116	377,305
Other receivables	5,675	37,947
Financial liabilities		
Financing facilities received from financial institutions	805,174	375,808
Deposits	9,725	4,149
Corporate bonds	388,064	582,200
Other financial liabilities	1,675	3,540

Market risk

Market Risk is defined as the possibility of suffering losses in balance and off-balance sheet positions as a result of the adverse fluctuations in market prices.

The Bank has policies in place for the management of market risk, which set the processes for monitoring and controlling the risks of changes in the quotation of financial instruments in order to optimize the risk-profit ratio through a structure of adequate management limits, models, and tools. The Global Risk Committee and the Finance Committee regularly control this risk, comprehensively with the other risks.

The use of quantitative models and methodologies applied is generally accepted by best practices, such as “Value at Risk” (VaR) approaches with various parameters to show normal market situations, as well situations under greater stress.

This method is based on statistical methods that take into account several variables that may cause variations in the value of the portfolio, including exchange rates, security policies and volatility. VaR consist of an estimate for potential losses that could arise from reasonably expected adverse changes in market conditions. It expresses the maximum amount of loss expected (given a confidence interval of 99%) over a specified time period or "time horizon" (set as 10 days), if that portfolio was unchanged during that time period.

The Bank's VaR varies according to the asset portfolio structure exposed to market risk. This risk may increase in certain situations to take advantage of beneficial business opportunities, and also as a function of the systemic increase in the price volatility of the asset.

The following table shows the 10-day 99% confidence VaR for the combined portfolios as of and for the years ended December 31, 2016, and 2015:

	12/31/2016	12/31/2015
	(In millions of Argentine pesos)	
Minimum for the period	41.3	97.2
Maximum for the period	200.1	191.9
Average for the period	118.2	144.2
As of December 31	57.6	191.9

Additionally, the Bank identifies and permanently follows up to market risk factors which may determine variations in the market portfolio value, such as interest rates, exchange rates and price volatility, among others, to apply corrective measures and adjust mitigation strategies, in order to maintain the market risk at the limits established by the Board of Directors at all times.

Moreover, stress models are used for market risk management. These models consist in applying to the same VaR model reference volatilities relating to crisis situations, to obtain a stress-testing parametric model, which facilitates planning for contingencies.

Sensibility to changes in interest rates

The interest rate risk is defined as the potential occurrence of changes in the Bank's financial condition as a result of interest rate fluctuations with potential adverse consequences in net financial income and its economic value.

As regards interest rate risk management and control, the Bank uses internal measurement tools, such as interest rate curves, sensitivity analysis of balance sheet items, and interest rate gap, among others, which enable a comprehensive interest rate risk management, including the liquidity risk, implying an assets and liabilities management strategy, conducted by the Financial Management Department within the limits set by the Board of Directors.

Also, for the purposes of interest rate risk management, the Bank has a series of policies, procedures, and internal controls in place, which are included in the Manual of Rules and Procedures, which are regularly reviewed and updated

The Bank calculates interest rate risk mismatches by performing a sensitivity analysis to view changes in the net value in the event of an increase of the interest rate by a percentage point. For such purpose, the maximum potential loss in the economic net value of the asset and liability portfolio is determined by considering a three-month period with a 99% confidence interval and using the model

and standards established by BCRA to determine the minimum capital requirement for each interest rate risk. The calculation is made taking into account interest rate changes and mismatches in Pesos and United States Dollars separately, for the following periods: up to 30 days, from 30 to 90 days (monthly periods), from 90 to 180 days, from 181 days to 1 year and from 1 year onwards.
The following table shows the three-month 99% confidence interest rate risk VaR as of and for the years ended December 31, 2016, and 2015.

	12/31/2016	12/31/2015
	(In millions of Argentine pesos)	
Minimum for the period	505.6	434.4
Maximum for the period	743.8	599.0
Average for the period	573.9	518.3
As of December 31	636.7	515.4

Foreign exchange risk

Banco Patagonia is exposed to fluctuations in foreign currency exchange rates prevalent in its financial position and cash flows.

Most of assets and liabilities are denominated in US dollars.

The foreign currency position includes assets and liabilities disclosed in Argentine pesos at the exchange rate at the end of the fiscal years below. An institution's open position comprises assets, liabilities and memorandum accounts denominated in the foreign currency in which the institution assumes the risk. Any devaluation / revaluation of those currencies would affect the Bank's statement of profit or loss.

Foreign currency transactions are performed at the supply and demand exchange rates. As of December 31, 2016, and 2015, the Bank's open position, denominated in Argentine pesos by currency, is as follows:

ITEMS	Total as of 12/31/2016	Euro	US dollars	Pound sterling	Swiss franc	Other
ASSET POSITION						
Cash and cash equivalents	4,640,889	129,472	4,489,767	2,406	1,088	18,156
Special guarantee accounts	16,009	-	16,009	-	-	-
Financial assets measured at fair value	2,498,243	49	2,498,194	-	-	-
Loans	8,434,532	5,174	8,429,358	-	-	-
Other receivables	28,643	-	28,641	-	-	2
Total	**15,618,316**	**134,695**	**15,461,969**	**2,406**	**1,088**	**18,158**
LIABILITY POSITION						
Financing facilities received from financial institutions	(1,866,547)	-	(1,866,547)	-	-	-
Deposits	(11,415,277)	(119,008)	(11,296,269)	-	-	-
Other liabilities	(608,675)	(17,930)	(570,711)	(113)	(406)	(19,515)
Total	**(13,890,499)**	**(136,938)**	**(13,733,527)**	**(113)**	**(406)**	**(19,515)**
DERIVATIVES						
Forward – purchases	1,544,697		1,544,697			
Forward – sales	(2,631,690)		(2,631,690)			
Total	**(1,086,993)**	**-**	**(1,086,993)**	**-**	**-**	**-**
Net position	**640,824**	**(2,243)**	**641,449**	**2,293**	**682**	**(1,357)**

Marcelo A. Iadarola
Executive Manager
of Administration, Accounting and Taxes

Juan D. Mazzón
Superintendent
Finance, Administration and Public Sector Area

João Carlos de Nóbrega Pecego
President

ITEMS	Total as of 12/31/2015	Euro	US dollars	Pound sterling	Swiss franc	Other
ASSET POSITION						
Cash and cash equivalents	4,450,688	160,342	4,246,660	4,138	1,728	37,820
Special guarantee accounts	6,503	-	6,503	-	-	-
Financial assets measured at fair value	1,388,553	42	1,388,511	-	-	-
Financial assets measured at amortized cost	111,885	-	111,885	-	-	-
Loans	3,032,028	3,483	3,028,545	-	-	-
Other receivables	50,406	-	50,401	-	-	5
Total	**9,040,063**	**163,867**	**8,832,505**	**4,138**	**1,728**	**37,825**
LIABILITY POSITION						
Financing facilities received from financial institutions	(2,363,584)	-	(2,363,584)	-	-	-
Deposits	(3,606,610)	(43,996)	(3,562,614)	-	-	-
Other liabilities	(673,515)	(9,930)	(662,549)	(925)	(9)	(102)
Total	**(6,643,709)**	**(53,926)**	**(6,588,747)**	**(925)**	**(9)**	**(102)**
DERIVATIVES						
Forward – purchases	6,761,078		6,761,078			
Forward – sales	(6,765,460)	(2,883)	(6,762,577)			
Total	(4,382)	(2,883)	(1.499)	-	-	-
Net position	**2,391,972**	**107,058**	**2,242,259**	**3,213**	**1,719**	**37,723**

The Bank calculates the VaR considering 252-day historical volatility, 10-day horizon and a 99 percent confidence level. The Bank calculates the foreign exchange risk mismatches by performing a sensitivity analysis to view changes in the net value in the event of an increase of the interest rate by a percentage point. For such purpose, the maximum potential loss is the economic net value of the asset and liability portfolio is determined by considering three-month period with a 99% confidence interval and using the model and standards established by BCRA to determine the minimum capital requirements for each foreign exchange risk.

The following table shows the three-month 99% confidence foreign exchange risk VaR as of and for the years ended December 31, 2016, and 2015.

	12/31/2016	12/31/2015
	(In millions of Argentine pesos)	
Minimum for the period	39.1	23.6
Maximum for the period	182.7	70.4
Average for the period	116.9	44.2
As of December 31	84.2	70.1

Marcelo A. Iadarola	Juan D. Mazzón	João Carlos de Nóbrega Pecego
Executive Manager	Superintendent	President
of Administration, Accounting and Taxes	Finance, Administration and Public Sector Area	

(In thousands of Argentine pesos)

NOTE 39: <u>Custodian agent of mutual funds</u>

As of December 31, 2016, and 2015, the Bank, in its capacity as a custodian agent of mutual funds, keeps the custody of shares subscribed by third parties and assets in the following Mutual Funds:

Name	Deposits	Other	Total assets as of 12/31/2016
Lombard Renta en Pesos Fondo Común de Inversión	1,414,832	453,053	1,867,885
Lombard Capital F.C.I.	969	7,172,007	7,172,976
Fondo Común de Inversión Lombard Renta Fija	5	203,651	203,656
Fondo Común de Inversión Lombard Pesos Plus	59,556	-	59,556
Fondo Común de Inversión Lombard Ahorro	6,707	-	6,707
Fondo Común de Inversión Lombard Abierto Plus	4	180,098	180,102
Fondo Común de Inversión Lombard Acciones Líderes	4	12,938	12,942
TOTAL	**1,482,077**	**8,021,747**	**9,503,824**

Name	Deposits	Other	Total assets as of 12/31/2015
Lombard Renta en Pesos Fondo Común de Inversión	2,209,646	206,031	2,415,677
Lombard Capital F.C.I.	498,201	2,255,491	2,753,692
Fondo Común de Inversión Lombard Renta Fija	6,007	212,154	218,161
Fondo Común de Inversión Lombard Pesos Plus	104,054	-	104,054
Fondo Común de Inversión Lombard Ahorro	6,601	-	6,601
Fondo Común de Inversión Lombard Abierto Plus	38	1,184	1,222
Fondo Común de Inversión Lombard Acciones Líderes	2	1,982	1,984
TOTAL	**2,824,549**	**2,676,842**	**5,501,391**

Fees earned as a Custodian Agent are recorded under “Fee income – Custodian Agent” in the amounts of 16,104 and 13,416 in the Consolidated Statement of Profit or Loss as of December 31, 2016, and 2015, respectively.

According with the terms and conditions of these agreements, the Group could not be require to provide any financial support to the mutual funds. Moreover, the Group did not incurred in any losses in relation with these mutual funds.

NOTE 40: Assets in trust

The Bank executed a number of agreements with other companies, whereby it was appointed trustee of certain financial trusts. The assets held in trust were mainly loans. Those loans were not recorded in the financial statements, since they are not the Bank's assets and, therefore, they are not consolidated.

As of December 31, 2016, and 2015, the Bank acts as a trustee of 24, and 28, respectively, and in no case will it meet the obligations assumed upon executing these trusts with its own assets; these obligations will only be satisfied with and up to the amount of the assets in trusts and the proceeds therefrom.

The fees earned by the Bank for acting as a trustee are calculated under the terms of the respective agreements, and the Bank's compensation as a trustee is recorded under "Fee income – Trust activity" in the amounts of 110,779 and 82,021 in the Consolidated Statement of Profit or Loss as of December 31, 2016, and 2015, respectively.

According with the terms and conditions of these agreements, the Bank could not be require to provide any financial support to the trusts. Moreover, the Bank did not incurred in any losses in relation with these trusts.

NOTE 41: Financial agent of the Province of Río Negro

Under Law No. 2929 of the Province of Río Negro, and the agreement signed on May 27, 1996, the Bank acted as a financial agent of the Provincial Government, being in charge of the banking duties set forth in article1.2 of the aforementioned agreement.

On February 28, 2006, such agreement expired, which remained effective up to December 31, 2006, through successive extensions, under the same terms and conditions as those of the abovementioned agreement.

Thereafter, through bidding process No. 1/2006 conducted by the Department of Finance, Public Works and Services of the Province of Río Negro, the Bank was awarded the financial agent duties, and on December 14, 2006, the Río Negro Province Banking and Financial Services Agreement was signed for a 10-year term, which expired on December 13, 2016.

On December 29, 2016, Law No. 5187 was enacted by the Legislature of the Province of Rio Negro, which extended the application of the agreement signed with the Bank as from December 14, 2016 for a term of 180 days, to be automatically extended, or for a lower term, in case the bidding process for the selection of a bank providing financial agency services ends before such term.

On December 22, 2016, the Executive Branch of the Province of Rio Negro issued Decree 2140 by which it organized a bidding process for the selection and subsequent hiring of the Financial Agent of the Province of Río Negro for a term of ten years, to be extended for a five-year period, unless otherwise decided by any of the parties.

The bidding process schedule establishes that the award date is April 6, 2017 and the date of execution of the Agreements is April 28, 2017.

Such duties do not include the obligation to provide financial aid to the Province of Río Negro under conditions other than those consistent with the private banking nature of this Bank.

Fee income related to such activity is recorded under “Fee income – Other” in the amounts of 43,675, and 37,877 as of December 31, 2016, and 2015, respectively.

NOTE 42: Subsequent events

Adoption of an accounting framework based on IFRS for regulatory accounting.

By means of Communication “A” 5541, and supplementary rules, the BCRA established that financial institutions under its supervision shall apply an accounting framework based on the application of IFRS, with certain exceptions, clarifications and additional requirements, as from the fiscal years beginning January 1, 2018.

Communication “A” 6114 issued by the BCRA requires the Board of Directors’ approval of the application of the option to measure land and buildings at fair value at the transition date (January 1, 2017). The Board of Directors is ultimately responsible for the measurement.

The Bank is currently analyzing the option to measure land and buildings owned by it, using the fair value arising from appraisals made by independent professionals as of January 1, 2017.

NOTE 43: Explanation added for translation into English

These financial statements are the English translation of those originally issued in Spanish.

They are presented in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The effects of differences between those standards and the accounting principles generally accepted in the countries in which the accompanying financial statements may be used have not been quantified.

Accordingly, these financial statements are not intended to present financial position, results of operations or changes in financial position in accordance with accounting principles generally accepted in the countries of users of the financial statements, other than those countries that apply IFRS issued by the IASB.