BANCOPATAGONIA

**Consolidated financial statements in accordance with International Financial Reporting Standards as of December 31, 2017 jointly with the Independent Auditors' Report**

**BANCO PATAGONIA S.A.**

**CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS OF DECEMBER 31, 2017**

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**BANCO PATAGONIA S.A.**

## CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS OF DECEMBER 31, 2017

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**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

*Opinion*

We have examined the accompanying consolidated financial statements of BANCO PATAGONIA S.A. (the "Entity") and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2017, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Entity as of December 31, 2017, the consolidated results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards ("IFRS").

*Basis of the opinion*

We performed this examination in accordance with the International Auditing Standards ("NIA, for its acronym in Spanish"). Our responsibilities in line with these rules are described below in the section "Auditors' responsibilities in relation to the audit of consolidated financial statements" of our report. We are independent from the Group in conformity with the provisions of the Code of Ethics to Accounting Professionals of the International Ethics Standards Board for Accountants ("IESBA"), and we have fulfilled other ethical responsibilities in accordance with the Code of Ethics of the IESBA. We believe that the audit evidence gathered gives a sufficient and appropriate basis to support our opinion.

*Key audit issues*

The key audit issues are those that, according to our professional judgment, were more significant in our audit of consolidated financial statements to the current fiscal year. These issues were addressed in the context of our audit of consolidated financial statements in its entirety, and in the formation of our opinion on it, and we do not express an opinion separately on these issues.

We have established the following key question to communicate in our report:

**Impairment of Loans to Clients**

Due to the importance of loans to clients and judgments related to determinate the devaluation, we believe that this is a key audit question.

As mentioned in Note 3.2 of the consolidated financial statements, in order to measure the impairment of loans to clients, the Bank assesses as of the date of the consolidated financial statements whether there is objective evidence of that the customer lending are impaired. A loan to a client is impaired and there is impairment loss only if: (i) there are objective evidences of impairment as result of one or more events after the initial recognition of the asset (a "loss event"); and (ii) said loss event has an impact which can be reliably estimated on cash flows projected estimated of the asset. The objective evidence of that an asset is impaired includes: considerable financial difficulties of the debtor, a breach of contract, such as *default* or backlog of payments.

**Auditing procedures carried out**

We assess the design and effectiveness of the internal control and, with the assistance of our in-house specialists in information technology, we assess the general controls of information technology and key automatic controls related with the proceedings concerning the approbation and granting of Loans to Customer, the assessment of methods, rates and assumptions applied by the Bank in the calculation of collective devaluation.

We also assess the impairment of loans regarded individually of significance based in a sample, checking the documentation and assumptions that support the decision taken by the Bank about the recoverable value of the transactions, including the analysis of the collateral adequacy. Likewise, we assess through evidences of reconciliation, verification of documentation and recalculation, the collateral adequacy, judgments and data used by the Bank para measure the losses from the impairment of Loans to clients' portfolios valued collectively.

On the other hand, we assess if the disclosures in the consolidated financial statements, described in the notes to the consolidated financial statements, agrees with the applicable rules.

*Responsibilities about consolidated financial statements of the Board of Directors and those responsible for corporate governance*

The Board of Directors is responsible of the preparation and adequate presentation of consolidated financial statements adjuncts in accordance with the NIIF, and of the internal control as it deems necessary to allow the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of the consolidated financial statements, the Board of Directors is responsible for assessment of the group's ability to continue operating as ongoing business, revealing, if applicable, the issues related to its continuity as ongoing entity and, if applicable, accounting criteria based in the principle of ongoing business, unless the intention of the Board of Directors is to settle the Group or to ceasing their transactions, or has no realistic alternative.

The Board of Directors is responsible for the supervision of the process of preparation of Group financial information.

*Auditors' responsibilities in relation to the audit of consolidated financial statements*

Our goals are to obtain a reasonable certainty of that this consolidated financial statements in its entirety are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable certainty involves a high level of safety, but it does not guarantee that an audit carried out in conformity with the NIA always detects a significant distortion, if any. Distortions can derive from a fraud or error and are considered to be significant if, individually or in its entirety, it is expected that they can to influence user's economy decisions make on based on present consolidated financial statements.

As part of an audit carried out in conformity with the NIA, we apply our professional judgment and we keep an attitude of professional skepticism throughout the audit. Likewise, in our work:

- We identify and assess the risks of significant distortion in the consolidated financial statements, whether due to fraud or error, we design and apply audit procedures in response to these risks, and we obtain audit evidence sufficient and appropriate to support our opinion professional. The risk of not detect a significant distortion due to fraud is higher than an incorrection due to error, since the fraud may imply collusion, falsification, intentional omission, false statement or circumvention of the internal control.

- We garnered knowledge of relevant internal control for the audit with the aim to design the audit procedures appropriate to the circumstances, but not for the purpose to express an opinion on the effectiveness of Group's internal control. .

- We assess the appropriateness of the accounting policies applied and the reasonableness of the accounting estimates and the disclosures related made by the Board of Directors.

- We conclude about the appropriateness of the application from the Board of Directors, of the accounting principles based in the principle of ongoing business and, based in the audit evidence obtained, we conclude if exist a meaningful uncertainty related with circumstances casting doubt on the group's ability to continue operating. If we conclude que exist a meaningful uncertainty, we must call attention of the auditors in our report on such disclosures contained in the consolidated financial statements, or, if such disclosures are not appropriate, we should alter our opinion. Our conclusions are based in the audit evidence obtained as of the date of our auditors' report. However, future circumstances can cause that the Group ceases to operate as an ongoing business.

- We assess the framework, contents and the presentation of the consolidated financial statements in its entirety, including the disclosures, and if the consolidated financial statements reflect underlying transactions and circumstances with a view to achieving a fair presentation.

- We obtain sufficient appropriate evidence about financial information or businesses of the Group in order to express an opinion on the consolidated financial statements. We are responsible for direction, supervision and execution of the Group audit. We are solely responsible on our audit opinion.

We communicate with those responsible for directing with reference to, among other issues, the scope and timing of realization of the scheduled auditing and findings.

Also, we provide to Board of Directors a statement of that we have complied with applicable ethical requirements, including the independence requirements, and we communicate the relations or affairs that could affect significantly our independence, including, if applicable, the respective safeguards.

Of the affairs subject to communication to responsible for the corporate governance, we identify those that were considered the most significant in the audit of consolidated financial statements to the current fiscal year. We described these affairs in our audit report, except that a law or regulation prohibits the public disclosure of specific topic or when, in unusual circumstances, we determine that the topic should not be included on our report because adverse consequences of disclosure could, from a reasonable point of view, be greater than benefits of communicate publicly.

City of Buenos Aires, Republic of Argentina, March 27, 2018

KPMG

Mauricio G. Eidelstein
*Partner*

<table>
<tr><td colspan="4">BANCO PATAGONIA S.A.</td></tr>
<tr><td colspan="4">Registered office:</td></tr>
<tr><td colspan="4">Avenida de Mayo 701 24th Floor- City of Buenos Aires - Argentina</td></tr>
<tr><td colspan="2">Main business activity: Commercial bank</td><td colspan="2">Taxpayer Identification number (CUIT): 30-50000661-3</td></tr>
<tr><td colspan="4">Incorporation date: May 4,1928</td></tr>
<tr><td rowspan="4">Registration with the Public Registry of Commerce of the City of Buenos Aires</td><td rowspan="2">Date</td><td colspan="2">(1) Of articles of incorporation: 09/18/1928</td></tr>
<tr><td colspan="2">(2) Of latest amendment: 12/07/2011</td></tr>
<tr><td rowspan="2">Book</td><td colspan="2">Stock Companies Book: 57</td></tr>
<tr><td colspan="2">Number: 30114</td></tr>
<tr><td colspan="4">Expiration of articles of incorporation: August 29, 2038</td></tr>
<tr><td colspan="4">Fiscal year No. 94</td></tr>
<tr><td colspan="2">Beginning date: January 1, 2017</td><td colspan="2">Closing date: December 31, 2017</td></tr>
<tr><td colspan="4">Capital structure (See note 2)</td></tr>
<tr><td colspan="2" rowspan="2">Number and characteristics of shares</td><td colspan="2">In Argentine pesos</td></tr>
<tr><td>Subscribed</td><td>Paid-in</td></tr>
<tr><td colspan="2">719,145,237 registered, common shares, with a nominal value of ARS 1 one vote each</td><td>719,145,237</td><td>719,145,237</td></tr>
</table>

**BANCO PATAGONIA S.A.**

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of Argentine pesos)

| ASSETS | NOTE | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| Cash and cash equivalents | 17 | 14,422,402 | 10,885,200 |
| Special guarantee accounts in central banks | 18 | 904,980 | 649,453 |
| Financial assets measured at fair value | 19 | 14,032,884 | 12,641,297 |
| Derivative financial instruments | 20 | 6,099 | 10.312 |
| Loans | 21 | 63,328,098 | 45,888,891 |
| Other receivables | 22 | 630,555 | 366,668 |
| Non-current assets held for sale | 23 | 34,382 | - |
| Property and equipment | 24 | 2,671,028 | 838,872 |
| Intangible assets | 25 | 46,774 | 26,368 |
| Deferred tax assets | 14 | - | 276,461 |
| Other assets | 26 | 751,227 | 411,000 |
| **TOTAL ASSETS** | | 96,828,429 | 71,994,522 |
| **LIABILITIES** | | | |
| Financing facilities received from financial institutions | 27 | 4,248,555 | 2,463,221 |
| Financial liabilities at fair value | 19 | 22,832 | - |
| Derivative financial instruments | 20 | 14,058 | 11,606 |
| Deposits | 28 | 69,062,589 | 52,219,645 |
| Corporate bonds | 29 | 2,235,141 | 1,582,752 |
| Other liabilities | 30 | 8,149,879 | 5,718,605 |
| Deferred tax liability | 14 | 99,598 | - |
| Provisions | 31 | 217,419 | 140,634 |
| **TOTAL LIABILITIES** | | 84,050,071 | 62,136,463 |

Marcelo A. Iadarola
Executive Manager of Administration

Juan M. Trejo
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 | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| Share capital | 2 | 719,145 | 719,145 |
| Additional paid-in capital | | 217,191 | 217,191 |
| Unappropriated retained earnings | | 3,640,443 | 3,783,864 |
| Translation reserve | 32 | 123,675 | 96,823 |
| Legal reserve | 32 | 2,541,788 | 1,887,990 |
| Revaluation reserves Property and Equipment | 24 | 1,413,485 | - |
| Other reserves | 32 | 4,122,631 | 3,141,814 |
| **SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS** | | 12,778,358 | 9,846,827 |
| **NON CONTROLLING INTERESTS (1)** | | - | 11,232 |
| **TOTAL SHAREHOLDERS' EQUITY** | | 12,778,358 | 9,858,059 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | 96,828,429 | 71,994,522 |

(1) At December 31, 2017, the non-controlling interest rose to $ 74.27 (amounts expressed in Argentinian pesos, unrounded to thousands of pesos)

Notes 1 to 43 are an integral part of these Consolidated Financial Statements.

| | | |
|---|---|---|
| Marcelo A. Iadarola<br>Executive Manager of Administration | Juan M. Trejo<br>Superintendent<br>Finance, Administration and Public Sector Area | João Carlos de Nóbrega Pecego<br>President |

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
## FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In thousands of Argentine pesos)

| STATEMENTS OF PROFIT OR LOSS | NOTE | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| Interest income and similar income | 5 | 11,717,694 | 10,236,963 |
| Interest expenses and similar expenses | 6 | (5,094,789) | (5,737,760) |
| Net interest income and similar income | | 6,622,905 | 4,499,203 |
| Fee income | 7 | 4,608,839 | 3,482,457 |
| Fee expenses | 7 | (1,221,061) | (875,912) |
| Net fee income | | 3,387,778 | 2,606,545 |
| Gains on financial assets measured at fair value through profit or loss | 8 | 3,069,930 | 3,459,136 |
| Net exchange gains | 9 | 346,873 | 610,706 |
| Other operating income | 10 | 98,671 | 143,798 |
| **TOTAL OPERATING INCOME BEFORE IMPAIRMENT LOSS ON FINANCIAL ASSETS** | | 13,526,157 | 11,319,388 |
| Net impairment loss on financial assets | 21 | (693,537) | (368,343) |
| **SUBTOTAL** | | 12,832,620 | 10,951,045 |

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Superintendent
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President

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## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
## FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In thousands of Argentine pesos)

| STATEMENTS OF PROFIT OR LOSS | NOTE | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| Personnel expenses | 11 | (3,590,640) | (2,914,184) |
| Depreciation | 24 | (156,273) | (82,355) |
| Amortization of intangible assets | 25 | (8,747) | (2,089) |
| Other receivable losses and provisions | 12 | (103,154) | (34,512) |
| Other operating expenses | 13 | (3,869,235) | (2,979,966) |
| **TOTAL OPERATING EXPENSE** | | (7,728,049) | (6,013,106) |
| **INCOME BEFORE INCOME TAX** | | 5,104,571 | 4,937,939 |
| Income tax expense | 14 | (1,980,952) | (1,731,992) |
| **NET INCOME** | | 3,123,619 | 3,205,947 |
| Attributable to: | | | |
| Parent company's shareholders | | 3,123,619 | 3,202,797 |
| Non-controlling interests (1) | 3.1 | - | 3,150 |
| Earnings per share: | | | |
| Basic earnings per share | 15 | 4.3435 | 4.4536 |
| Diluted earnings per share | 15 | 4.3435 | 4.4536 |

(1) At December 31, 2017, the Net income attributable to the non-controlling interest rose to $ 41.20 (amounts expressed in Argentinian pesos, unrounded to thousands of pesos).

Notes 1 to 43 are an integral part of these Consolidated Financial Statements.

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Juan M. Trejo
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President

**BANCO PATAGONIA S.A.**

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In thousands of Argentine pesos)

| STATEMENT OF COMPREHENSIVE INCOME | NOTE | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| **NET INCOME** | | 3,123,619 | 3,205,947 |
| **OTHER COMPREHENSIVE INCOME:** | | | |
| Other comprehensive income that will be reclassified subsequently to profit or loss: | | | |
| Foreign currency translation differences for foreign operations | 32 | 35,803 | 34,121 |
| Tax effect on other comprehensive income | 32 | (8,951) | (11,942) |
| Other Comprehensive Income which will not be reclassified subsequently to profits: | | | |
| Revaluation of properties reserves | 24 | 1,897,371 | - |
| Tax effect | 24 | (483,886) | - |
| **OTHER COMPREHENSIVE INCOME, NET OF TAXES** | | 1,440,337 | 22,179 |
| **TOTAL COMPREHENSIVE INCOME** | | 4,563,956 | 3,228,126 |
| Attributable to: | | | |
| The parent company's shareholders | | 4,563,956 | 3,224,976 |
| Non-controlling interests | 3.1 | - | 3,150 |

(1) At December 31, 2017, the Net income attributable to the non-controlling interest rose to $ 41.20 (amounts expressed in Argentinian pesos, unrounded to thousands of pesos).

Notes 1 to 43 are an integral part of these Consolidated Financial Statements.

Marcelo A. Iadarola
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Juan M. Trejo
Superintendent
Finance, Administration and Public Sector Area

João Carlos de Nóbrega Pecego
President

**BANCO PATAGONIA S.A.**

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
## FOR THE YEAR ENDED DECEMBER 31, 2017

(In thousands of Argentine pesos)

| Changes | Share capital (1) | Additional paid-in capital | Legal reserve (2) (3) | Other reserves (3) | Translation reserve (3) | Revaluation of properties reserves (5) | Unappropriated retained earnings | Total attributable to parent company's shareholders (4) | Total non-controlling interests (4) | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as of January 1, 2017** | 719,145 | 217,191 | 1,887,990 | 3,141,814 | 96,823 | - | 3,783,864 | 9,846,827 | 11,232 | 9,858,059 |
| Net income | - | - | - | - | - | - | 3,123,619 | 3,123,619 | - | 3,123,619 |
| Other comprehensive income (net of income tax amounting) (7) | - | - | - | - | 26,852 | 1,413,485 | - | 1,440,337 | - | 1,440,337 |
| Total comprehensive income | **-** | **-** | **-** | **-** | **26,852** | **1,413,485** | **3,123,619** | **4,563,956** | **-** | **4,563,956** |
| Acquisition of non-controlling interests (4) | - | - | - | - | - | - | 2,072 | 2,072 | (11,232) | (9,160) |
| Distribution of earnings, as approved by the Annual Shareholders' Meetings held on 4/26/17 (2): | | | | | | | | | | |
| Legal reserve | - | - | 653,798 | - | - | - | (653,798) | - | - | - |
| Other reserves - Future distribution of earnings | - | - | - | 980,817 | - | - | (980,817) | - | - | - |
| Cash dividends (6) | - | - | - | - | - | - | (1,634,497) | (1,634,497) | - | (1,634,497) |
| **Balances as of December 31, 2017** | **719,145** | **217,191** | **2,541,788** | **4,122,631** | **123,675** | **1,413,485** | **3,640,443** | **12,778,358** | **-** | **12,778,358** |

(1) See Note 2.
(2) See Note 16.
(3) See Note 32.
(4) See Note 3.1.
(5) See Note 24.
(6) Dividends per share amounts to 2.2728
(7) See Note 14.

Marcelo A. Iadarola
Executive Manager of Administration

Juan M. Trejo
Superintendent
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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) | Other reserves | Translation reserve | Unappropriated retained earnings | Total attributable to parent company's shareholders | Total non-controlling interests | 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) (4) | - | - | - | - | 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: | | | | | | | | | |
| Legal reserve | - | - | 481,107 | - | - | (481,107) | - | - | - |
| Cash dividends (3) | - | - | - | (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 (1) | (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) The other reserve is net of the purchase of treasury shares in the amount of 394. (See Note 2.2).
(3) Dividends per share amounts to 2.3851.
(4) See Note 14.

Notes 1 to 43 are an integral part of these Consolidated Financial Statements.

Marcelo A. Iadarola
Executive Manager of Administration

Juan M. Trejo
Superintendent
Finance, Administration and Public Sector Area

João Carlos de Nóbrega Pecego
President

**BANCO PATAGONIA S.A.**

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In thousands of Argentine pesos)

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **Changes in cash and cash equivalents** | | |
| Cash and cash equivalents as of January 1 | 10,885,200 | 9,599,808 |
| Exchange gains attributable to cash and cash equivalents | 414,444 | 879,119 |
| Cash and cash equivalents as of December 31 | 14,422,402 | 10,885,200 |
| **Net increase in cash and cash equivalents** | **3,122,758** | **406,273** |
| **Sources (uses) of cash and cash equivalents** | | |
| **Operating activities** | | |
| Net income | 3,123,619 | 3,205,947 |
| Adjustments: | | |
| Depreciation of Property and equipment | 156,273 | 82,355 |
| Gain on sale of Property and equipment | (8,134) | (5,695) |
| Amortization of Intangible assets | 8,747 | 2,089 |
| Net Exchange gains | (346,873) | (610,706) |
| Income tax expense | 1,980,952 | 1,731,992 |
| Interest expense on corporate bonds | 440,197 | 361,677 |
| Interest expense on financing facilities received from financial institutions | 414,627 | 261,781 |
| Cash dividends from shares | (93,421) | (45,750) |
| Interest income on loans | (11,701,734) | (10,209,002) |
| Interest income on other receivables | (9,160) | (19,390) |
| Interest income on other financial assets at amortized cost | - | (4,073) |
| Interest expense on deposits | 4,120,059 | 5,017,782 |
| Net of provisions expense | 98,897 | 14,535 |
| Changes in: | | |
| Special guarantee accounts in central banks | (255,527) | (249,911) |
| Financial assets measured at fair value | (1,857,202) | (2,772,712) |
| Other financial assets at amortized cost | - | 109,686 |
| Derivative financial instruments – assets | 4,213 | 42,547 |
| Loans | (19,896,035) | (6,770,062) |
| Other receivables | (266,712) | 12,685 |
| Other assets | (374,609) | (59,699) |
| Financing facilities received from financial institutions | 2,515,525 | (674,473) |
| Financial liabilities at fair value | 22,832 | - |
| Derivative financial instruments – liabilities | 2,452 | (899,332) |
| Deposits | 20,917,464 | 9,129,746 |
| Other liabilities | 256,181 | 988,279 |
| Provisions | (22,112) | (16,121) |
| Interest paid for financial facilities received from financial institutions | (299,586) | (239,252) |
| Interest paid on deposits | (4,053,336) | (5,009,630) |
| Interest received from loans | 11,307,300 | 9,659,974 |
| Interest received from other receivables | 11,985 | 25,102 |
| Interest received from other financial assets at amortized cost | - | 6,272 |
| Cash dividends received | 93,421 | 45,750 |
| Income tax paid | (1,529,980) | (997,649) |
| **Net cash flows provided by operating activities** | **4,760,323** | **2,114,742** |

| Marcelo A. Iadarola<br>Executive Manager of Administration | Juan M. Trejo<br>Superintendent<br>Finance, Administration and Public Sector Area | João Carlos de Nóbrega Pecego<br>President |
|---|---|---|

**BANCO PATAGONIA S.A.**

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In thousands of Argentine pesos)

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **Investing activities** | | |
| Purchases of property and equipment | (204,887) | (390,857) |
| Purchases of intangible assets | (29,239) | (28,457) |
| Proceeds from sale of property and equipment | 122,049 | 35,401 |
| **Net cash flows used in investing activities** | **(112,077)** | **(383,913)** |
| | | |
| **Financing activities** | | |
| Financing facilities received from financial institutions | - | 583,968 |
| Payments on financing facilities from financial institutions | (94,023) | (319,730) |
| Payment for acquisition of subsidiaries | (9,160) | - |
| Proceeds from issuance of corporate bonds | 1,826,181 | 1,121,389 |
| Payments of corporate bonds | (1,613,989) | (994,922) |
| Dividends paid | (1,634,497) | (1,715,261) |
| **Net cash flows used in financing activities** | **(1,525,488)** | **(1,324,556)** |
| **Net increase/ (decrease) in cash and cash equivalents** | **3,122,758** | **406,273** |

| **Conciliation of liabilities arising from the funding activities** | **12/31/2017** | **Cash flow** | | **Different cash flows** | | | **12/31/2016** |
|---|---|---|---|---|---|---|---|
| | | **Charges** | **Payments** | **Foreign currency fluctuations** | **Accrued interest** | **Profit sharing** | |
| Funding received from financial entities | 567,371 | - | (94,023) | 90,327 | 29,297 | - | 541,771 |
| Negotiable obligations | 2,235,141 | 1,826,181 | (1,613,989) | - | 440,197 | - | 1,582,752 |
| Dividends paid | - | - | (1,634,497) | - | - | 1,634,497 | - |
| **Total liabilities for funding activities** | **2,802,512** | **1,826,181** | **(3,342,509)** | **90,327** | **469,494** | **1,634,497** | **2,124,523** |

Notes 1 to 43 are an integral part of these Consolidated Financial Statements.

| Marcelo A. Iadarola<br>Executive Manager of Administration | Juan M. Trejo<br>Superintendent<br>Finance, Administration and Public Sector Area | João Carlos de Nóbrega Pecego<br>President |
|---|---|---|

## 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).

At the local level 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 27 2018, 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, 2017, 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, 2018, and with the Banco Central de la República Argentina (Argentina Central Bank) (BCRA) on February 20, 2018.

## NOTE 2: Share capital

As of December 31, 2017 and 2016 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 of December 31, 2017 | 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 | 696,376,419 | 1 | 1 | 696,376 | - | 696,376 |
| Total of December 31, 2016 | 719,145,237 | | | 719,145 | - | 719,145 |

$: Thousands of Argentine pesos
ARS: Argentine pesos

| Marcelo A. Iadarola | Juan M. Trejo | João Carlos de Nóbrega Pecego |
|---|---|---|
| Executive Manager of Administration | Superintendent<br>Finance, Administration and Public Sector Area | President |

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. 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, was 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.

Likewise, the Ordinary General Meeting of Shareholders held in April 26, 2017 was disposed the release of residual balances of the Optional Reserve for the Share Buyback Program and the constitution of an Optional Reserve for future profit sharing by 3,058.

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.

## 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, 2017, are presented comparatively with the two preceding fiscal years, while the Consolidated Statement of Financial Position is presented comparatively with the previous fiscal year.

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).

For its part, the present consolidated financial statements were prepared based on historical amounts, except for financial assets at fair value with changes in net income, derivative financial instruments and property included in the category Property and Equipment that were 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.

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.

(In thousands of Argentine pesos)

On December 31, 2017 and 2016, 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 | 100.00% | 100.00% |

(*) In February 15, 2017 the Bank acquired V$N 836,700 common shares of the book-entry type of GPAT representative of 1% share capital of the Company, obtaining 100% of capital and possible votes thereof. The operation was paid in cash by 9.160 generating the following records:

- a decrease of "Non-controlling interest" for 11,232; and
- an increase of "Unallocated earnings" for 2,072.

Banco Patagonia S.A.'s Board of Directors considers that no other companies or structured entities should be consolidated as of December 31, 2017, and 2016.

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, 2017, and 2016 (see Note 3.3.f)).

b) Income/loss for the fiscal years ended December 31, 2017, and 2016 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 39 Risk management, in relation with impairment of financial assets and credit risk, respectively.

- Notes 19 Financial assets measured at fair value and 38 Fair value of financial instruments, in relation to the determination of the fair value of financial assets Level 2.

- Note 31 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, 2017, and 2016 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) Financial assets measured at amortized cost

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".

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 39).

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 disposal 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.

The aforementioned assets measured at the lower of carrying amount and fair value less costs to sell as of the date of its reclassification.

k) Property and equipment:

Since January 1°, 2017 the Group changed its accounting policy applicable to real states classified as Property and Equipment after initial recognition, has moved from cost model to revaluation model.

According to cost model, after initial recognition of the asset, is being measured on its acquisition cost less the accumulated devaluation and the cumulative amount of value impairment losses, if any. In the case of revaluation model, after initial recognition of the asset, is being measured at fair value in the date of revaluation less the accumulated devaluation and the cumulative amount of value impairment losses, if any.

Due to significant increases in property prices registered over the last few years, the Group considers that the revaluation model reflects more reliably the value of these assets. As a consequence, since January 1°, 2017, the Group uses the revaluation model for all its properties classified as Property and Equipment.

In accordance with the NIIF, the change in accounting policy has not been applied retroactively.

For the rest of the classes of Property and Equipment, the cost model is currently applied.

The Bank's Board of Directors defined the following policies and procedures to be followed for recurring measurements of fair value of the Group's real states, classified as Property and Equipment.

The measurements at fair value are carried out by external Appraisers, whose selection is made taking into account attributes, such as market knowledge, reputation, independence and if meets professional standards.

The frequency of revaluations will depend upon the changes in fair values of the items that are being revalued. When the fair value of the revalued asset differs significantly of its carrying amount, will be made a new revaluation.

At the date of revaluation, the accumulated devaluation of the revalued assets is eliminated against the initial value of the aforementioned assets.

The increase of carrying amount of an asset as consequence of the revaluation is recognized in Other Comprehensive Income (ORI), within the Net Equity, in the account Revaluation of properties reserves.

The devaluations are determined applying the straight-line method, into the fair value and on the estimated useful lives of the item as of the date of the revaluation and are recognized in results entirely.

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) <u>Impairment of non-financial assets:</u>

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) <u>Provisions:</u>

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) <u>Income tax:</u>

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 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.

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.

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, 2017, and 2016, 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 40 and 41).

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 30).

### 3.4 New pronouncements and interpretations not adopted yet

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, 2017:

- 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 “Income from Ordinary Activities from Customer Contracts”: Effective for fiscal years beginning on or after January 1, 2018, 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, 2018, 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.

- “Application of the IFRS 9 Financial Instruments with the IFRS 4 “Insurance Policies” (Modifications of the IFRS 4) shall be applied for annual periods beginning on 1 January 2018, prescribes the accounting treatment options to some financial assets for issuing entities of insurance policies, within the framework of differences at the date of implementation of IFRS 9 and the new standard about insurance policies IFRS 17.

- “Transfers of Investment Properties” (Modifications of the NIC 40) shall be applied for annual periods beginning on 1 January 2018, introduces amendments to when an Entity must transfer a property from or to investment properties, defining “change in use”.

- NIIF 17 "Insurance Policies" (Abolishes the IFRS 4) shall be applied for annual periods beginning on 1 January 2021, sets out the principles for recognition, measurement, presentation and information to reveal about issued insurance policies, including the treatment of reinsurance contracts held and investment contracts issued with discretionary participation features.

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.

<u>IFRS 9 Financial Instruments (2014)</u>

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: <u>Segment reporting</u>**

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 42), perform with the Bank.

(In thousands of Argentine pesos)

- 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.

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, 2017, and 2016, 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, 2017 and 2016:

| | Individuals segment | Companies segment | Financial and Government segment | Treasury | Other without distribution (1) | Total as of 12/31/2017 |
|---|---|---|---|---|---|---|
| Loans | 18,087,187 | 32,816,866 | 3,700,462 | - | 8,723,583 | 63,328,098 |
| Other assets | 1,345,806 | 432,762 | 1,285,254 | 32,089,025 | (1,652,516) | 33,500,331 |
| **TOTAL ASSETS** | **19,432,993** | **33,249,628** | **4,985,716** | **32,089,025** | **7,071,067** | **96,828,429** |
| Deposits | 37,479,959 | 13,079,386 | 14,047,891 | 12,714 | 4,442,639 | 69,062,589 |
| Other liabilities | 40,918 | 16,760 | 2,378,466 | 10,999,471 | 1,551,867 | 14,987,482 |
| **TOTAL LIABILITIES** | **37,520,877** | **13,096,146** | **16,426,357** | **11,012,185** | **5,994,506** | **84,050,071** |
| Net interest income and similar income | 2,353,110 | 4,471,353 | (566,007) | (15,080) | 379,529 | 6,622,905 |
| Fee income | 1,381,617 | 1,453,324 | 186,858 | - | 365,979 | 3,387,778 |
| Gains on financial assets measured at fair value through profit or loss | 16,126 | 56,062 | 173,742 | 3,209,262 | (385,262) | 3,069,930 |
| Net exchange gains | 224,170 | 234,150 | 2,914 | (117,978) | 3,617 | 346,873 |
| Other operating income | 10,674 | 146 | 1 | (12,185) | 100,035 | 98,671 |
| **TOTAL OPERATING INCOME BEFORE IMPAIRMENT LOSS ON FINANCIAL ASSETS** | **3,985,697** | **6,215,035** | **(202,492)** | **3,064,019** | **463,898** | **13,526,157** |
| Net impairment loss on financial assets | (348,952) | (177,166) | 2,506 | (6,137) | (163,788) | (693,537) |
| **SUBTOTAL** | **3,636,745** | **6,037,869** | **(199,986)** | **3,057,882** | **300,110** | **12,832,620** |
| Total operating expenses | -3,232,570 | -2,219,433 | -510,351 | (886,624) | (879,071) | (7,728,049) |
| **INCOME BEFORE INCOME TAX** | **404,175** | **3,818,436** | **(710,337)** | **2,171,258** | **(578,961)** | **5,104,571** |
| Income tax expense | | | | | | (1,980,952) |
| **NET INCOME** | | | | | | **3,123,619** |
| **Attributable to** | | | | | | |
| **Parent company's shareholders** | | | | | | 3,123,619 |
| **Non-controlling interests** | | | | | | - |

Marcelo A. Iadarola
Executive Manager of Administration

Juan M. Trejo
Superintendent
Finance, Administration and Public Sector Area

João Carlos de Nóbrega Pecego
President

(In thousands of Argentine pesos)

(1) The breakdown of Other without distribution follows:

| | Reconciliation items from Management to regulatory information | Subsidiaries (2) | Consolidation adjustments and eliminations | IFRS adjustments | Total other without distribution |
|---|---|---|---|---|---|
| Loans | 3,412,816 | 5,473,954 | (1,256,978) | 1,093,791 | 8,723,583 |
| ther assets | 547,845 | 1,312,520 | (1,649,339) | (1,863,542) | (1,652,516) |
| **TOTAL ASSETS** | **3,960,661** | **6,786,474** | **(2,906,317)** | **(769,751)** | **7,071,067** |
| Deposits | 4,065,462 | 411,761 | (22,456) | (12,128) | 4,442,639 |
| Other liabilities | 441,030 | 4,839,867 | (1,349,015) | (2,380,015) | 1,551,867 |
| **TOTAL LIABILITIES** | **4,506,492** | **5,251,628** | **(1,371,471)** | **(2,392,143)** | **5,994,506** |
| Net interest income and similar income | 299,592 | 302,780 | - | (222,843) | 379,529 |
| Fee income | (206,505) | 572,523 | - | (39) | 365,979 |
| Gains on financial assets measured at fair value through profit or loss | (50,786) | 154,488 | (463,813) | (25,151) | (385,262) |
| Net exchange gains | 5 | 38,651 | - | (35,039) | 3,617 |
| Other operating income | 85,260 | 19,983 | (5,208) | - | 100,035 |
| **TOTAL OPERATING INCOME BEFORE IMPAIRMENT LOSS ON FINANCIAL ASSETS** | **127,566** | **1,088,425** | **(469,021)** | **(283,072)** | **463,898** |
| Net impairment loss on financial assets | (102,618) | (78,297) | - | 17,127 | (163,788) |
| **SUBTOTAL** | **24,948** | **1,010,128** | **(469,021)** | **(265,945)** | **300,110** |
| Total operating expenses | (290,281) | (303,743) | 5,208 | (290,255) | (879,071) |
| **INCOME BEFORE INCOME TAX** | **(265,333)** | **706,385** | **(463,813)** | **(556,200)** | **(578,961)** |

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

| | 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 |

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President

(In thousands of Argentine pesos)

(1) The breakdown of Other without distribution follows:

| | 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 | (1,684,402) | 2,959,450 | (807,216) | (745,271) | (277,439) |
| **TOTAL LIABILITIES** | **(372,476)** | **3,421,471** | **(838,004)** | **(745,272)** | **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.

*Information about geographical areas*

The Group operates in Argentina and Uruguay.

Below are detailed the main components of operating income before impairment loss of financial assets charged to Argentina (legal domicile of the bank) and Uruguay:

| | **Argentina** | **Uruguay** | **12/31/2017** |
|---|---|---|---|
| Net interest income and similar income | 6,617,904 | 5,001 | 6,622,905 |
| Net fee income | 3,384,122 | 3,656 | 3,387,778 |
| Gains on financial assets measured at fair value through profit or loss | 3,045,034 | 24,896 | 3,069,930 |
| Net exchange gains | 311,680 | 35,193 | 346,873 |
| Other operating income | 98,671 | - | 98,671 |
| Total operating income before impairment loss on financial assets | **13,457,411** | **68,746** | **13,526,157** |

| Marcelo A. Iadarola | Juan M. Trejo | João Carlos de Nóbrega Pecego |
|---|---|---|
| Executive Manager of Administration | Superintendent<br>Finance, Administration and Public Sector Area | President |

| | 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** |

The assets with a useful life greater than one year, distinct of financial instruments and assets for deferred taxes, located in Argentina and Uruguay, are as follows:

| | Argentina | Uruguay | 12/31/2017 |
|---|---|---|---|
| Property and equipment | 2,663,274 | 7,754 | 2,671,028 |
| Intangible assets | 46,774 | - | 46,774 |
| Total | **2,710,048** | **7,754** | **2,717,802** |

| | 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** |

(In thousands of Argentine pesos)

## NOTE 5: Interest income and similar income

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **Loans** | **11,701,734** | **10,209,002** |
| Notes | 2,723,473 | 3,069,223 |
| Personal Loans | 2,625,640 | 1,522,158 |
| Overdrafts | 1,613,491 | 2,252,539 |
| Credit cards | 1,486,684 | 1,329,811 |
| Car loans | 1,085,282 | 702,675 |
| Interest on swap transactions | 785,283 | 106,959 |
| Loans to financial institutions | 375,847 | 344,059 |
| Finance lease | 310,758 | 310,299 |
| Export pre-financing loans | 50,632 | 34,329 |
| Other loans | 644,644 | 536,950 |
| **Other receivables** | **9,160** | **19,390** |
| **Other financial assets at amortized cost** | **-** | **4,073** |
| **Other** | **6,800** | **4,498** |
| | 11,717,694 | 10,236,963 |

## NOTE 6: Interest expenses and similar expenses

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Deposits | 4,120,059 | 5,017,782 |
| Corporate bonds | 440,197 | 361,677 |
| Financing facilities received from financial institutions | 414,627 | 261,781 |
| Other | 119,906 | 96,520 |
| | 5,094,789 | 5,737,760 |

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João Carlos de Nóbrega Pecego
President

(In thousands of Argentine pesos)

## NOTE 7: Fee income and expenses

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Fee income | | |
| Credit and debit cards | 1,218,361 | 1,125,471 |
| Checking accounts | 709,472 | 447,973 |
| Insurance | 541,766 | 443,090 |
| Packages of products | 522,967 | 250,629 |
| Revenues | 202,905 | 131,098 |
| Checks to be collected and items in custody | 179,509 | 144,871 |
| Safe-deposit boxes | 167,577 | 115,679 |
| Foreign trade | 165,414 | 143,057 |
| Trust activity (See Note 40) | 149,253 | 110,779 |
| Savings accounts | 122,609 | 72,273 |
| Portfolio management and recovery process | 91,433 | 65,571 |
| Securities Titles | 35,475 | 40,949 |
| Custodian Agent (See Note 39) | 30,018 | 16,104 |
| Other | 472,080 | 374,913 |
| | 4,608,839 | 3,482,457 |

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Fee expenses | | |
| Credit and debit cards | 878,916 | 663,739 |
| Salary crediting agreement | 100,733 | 42,203 |
| Carriage of valuables | 81,206 | 65,096 |
| Securities clearing and means of payment | 42,580 | 28,750 |
| Other | 117,626 | 76,124 |
| | 1,221,061 | 875,912 |

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

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Financial assets measured at fair value | 2,840,072 | 3,231,973 |
| Forward foreign currency transactions (see Note 20) | 136,437 | 181,413 |
| Cash dividends from shares | 93,421 | 45,750 |
| | 3,069,930 | 3,459,136 |

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|---|---|---|

(In thousands of Argentine pesos)

## NOTE 9: Net exchange gains

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Conversion into Argentine pesos of foreign currency assets and liabilities | (134,276) | 162,793 |
| Gains from purchase-sale of foreign currency | 481,149 | 447,913 |
| | 346,873 | 610,706 |

## NOTE 10: Other operating income

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Proceeds from credit card transactions | 29,773 | 31,637 |
| Proceeds from the sale of fixed assets and miscellaneous assets | 8,134 | 5,695 |
| Other | 60,764 | 106,466 |
| | 98,671 | 143,798 |

## NOTE 11: Personnel expenses

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Salaries | 2,780,276 | 2,218,600 |
| Social security contributions | 593,897 | 468,866 |
| Services to personnel | 108,601 | 82,892 |
| Personnel bonuses | 67,226 | 71,060 |
| Representation and per diem expenses | 29,356 | 51,268 |
| Administrative services hired | 10,693 | 15,515 |
| Severance payments | 591 | 5,983 |
| | 3,590,640 | 2,914,184 |

## NOTE 12: Other receivable losses and provisions

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Net allowances for other losses (see Note 22) | 4,257 | 19,977 |
| Provisions, net (see Note 31) | 98,897 | 14,535 |
| | 103,154 | 34,512 |

(In thousands of Argentine pesos)

### NOTE 13: Other operating expenses

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Turnover tax (1) | 1,174,672 | 1,027,067 |
| Maintenance, conservation and repair expenses | 352,634 | 294,636 |
| Armored vehicle services | 252,044 | 211,077 |
| Security services | 211,076 | 159,915 |
| Sundry taxes | 209,960 | 169,302 |
| Rentals | 182,874 | 138,666 |
| Professional fees | 146,600 | 160,962 |
| Electric power and communications | 138,292 | 112,633 |
| Tax on bank accounts debits and credits | 132,005 | 104,846 |
| Courier cost | 113,833 | 62,400 |
| Contribution to the deposit guarantee fund | 95,578 | 125,219 |
| Advertising and marketing | 81,117 | 81,554 |
| Directors' and supervisory auditors' fees | 79,011 | 59,507 |
| Cleaning expenses | 71,516 | 49,147 |
| Office supplies expenses | 38,959 | 44,498 |
| Other | 589,064 | 178,537 |
| | 3,869,235 | 2,979,966 |

(1) As of December 2017, and 2016, this tax is related to interest income and similar income in the amounts of 805,528, and 764,783, respectively; to fee income in the amounts of 344,302 and 252,429, respectively; and to other income in the amounts of 24,842 and 9,855, respectively.

### NOTE 14: Income tax

Amounts recognized as deferred tax assets and liabilities are as follows:

| Description: | 12/31/2017 | Deferred tax (expense) gain | OCI | 12/31/2016 |
|---|---|---|---|---|
| Deferred tax assets: | | | | |
| Loans | 420,164 | 99,179 | - | 320,985 |
| Other receivables | 8,113 | (2,014) | - | 10,127 |
| Deposits | - | (729) | - | 729 |
| Other liabilities | 49,588 | (4,661) | (8,951) | 63,200 |
| Provisions | 54,398 | (5,176) | - | 59,574 |
| Total deferred assets | 532,263 | 86,599 | (8,951) | 454,615 |
| Deferred tax liabilities: | | | | |
| Financial assets measured at fair value | (129,508) | 32,230 | - | (161,738) |
| Other assets | (14,032) | (17,068) | - | 3,036 |
| Corporate bonds | (1,925) | (1,419) | - | (506) |
| Property and equipment | (486,396) | 16,436 | (483,886) | (18,946) |
| Total deferred liabilities | (631,861) | 30,179 | (483,886) | (178,154) |
| Net deferred tax assets at year-end | **(99,598)** | **116,778** | **(492,837)** | **276,461** |

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(In thousands of Argentine pesos)

Changes in net deferred tax assets during the years ended December 31, 2017 and 2016, are as follows:

| Description | **12/31/2017** | **12/31/2016** |
|---|---|---|
| Net deferred tax assets at beginning of the year | 276,461 | 327,364 |
| Deferred tax (expense) gain | 116,778 | (38,961) |
| Recognized in translation reserve | (492,837) | (11,942) |
| Net deferred tax assets at year-end | (99,598) | 276,461 |

The reconciliation of effective tax rate is disclosed as follows:

| Description | **12/31/2017** | **12/31/2016** |
|---|---|---|
| Income before income tax | 5,104,571 | 4,937,939 |
| Statutory income tax rate | 35% | 35% |
| Tax on net income | 1,786,600 | 1,728,279 |
| Reduction of tax rate (1) | 192,514 | - |
| Permanent differences: | | |
| Income not subject to income tax | (128,776) | (40,576) |
| Expenses not deductible from taxable income | 130,614 | 44,289 |
| Total income tax expense | 1,980,952 | 1,731,992 |

The breakdown of the income tax expense follows:

| Description | **12/31/2017** | **12/31/2016** |
|---|---|---|
| Current tax expense | 2,097,730 | 1,693,031 |
| Reduction of tax rate (1) | 192,514 | |
| Deferred tax expense (gain) | (309,292) | 38,961 |
| Total income tax expense | 1,980,952 | 1,731,992 |

At 31 December 2016, there was a deferred tax liability of 4,903 for temporary differences of 14,009, 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.

(1) As at December 30, 2017 was published in the Legal Gazette the Law 27340 that approved the Fiscal Reform proposed by the National Government, whereby was decided the modification of the article 69 of the Income Tax Law, establishing the reduction of the tax rate of 35% to 25%, but, likewise, on a temporary basis, stipulates the application of rate of 30% for the fiscal years 2018 and 2019.

That reform caused that was recognized a loss of 195,514 in the outcome of the fiscal year and a net income of 180,193 in other comprehensive income, product of the remeasurement of the assets and liabilities by deferred taxes of the Group at December 31, 2017.

*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, 2017 and 2016, the amounts assessed for income tax were higher than those assessed for minimum presumed income tax for those years.

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 mentioned earlier, the weighted average number of ordinary shares outstanding during the fiscal year ended at December 31, 2016 includes the number of ordinary shares outstanding at the beginning of the fiscal year and excludes the number of ordinary shares that were acquired between March 27, 2012 and March 22, 2013 within the framework of the program to buyback its own shares. At March 29, 2016 the Entity recorded the reduction of social capital corresponding to shares for the abovementioned program (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.
The following table shows the calculation of basic and dilutes earnings per share:

(In thousands of Argentine pesos)

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Numerator: | | |
| Net income attributable to parent company's shareholders | 3,123,619 | 3,202,797 |
| 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) | 4.3435 | 4.4536 |
| Number of outstanding common shares at beginning of the year and as of year-end (see Note 2) | 719,145,237 | 719,145,237 |

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

The Annual Shareholders' Meeting held on April 26, 2017 for fiscal year ended December 31, 2017 approved the following distribution of earnings:

| | |
|---|---|
| Legal reserve | 653,798 |
| Optional Reserve – Future distribution of earnings | 980,817 |
| Cash dividends | 1,634,497 |
| **Total** | **3,269,112** |

At June 28, 2017 the SEFyC of the BCRA was authorized the payment of cash dividends, making available to the Entity's shareholders at July 13, 2017.

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 711,042 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.

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, whose composition is required, the net positive difference between the measurement at amortized cost or at market fair value with regards to public debt instruments and/or of monetary regulation of the BCRA for instruments valued at amortized cost, among other items.

At March 9, 2018, the BCRA issued the communication "A" 6464 that revokes the disposition obliging the financial entities to obtain the express prior authorization of the SEFyC for distribution of profits, modifying the intervention of said body to verification of the correct application of the determination process of distributable outcomes.

Nevertheless, until March 31, 2020, the financial entities must have the prior authorization of the SEFyC determining that the distributable outcomes have not increased its ordinary capital level 1 net of deductible items, as the norm establishes.

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.

(In thousands of Argentine pesos)

Finally, taking into account the information provided in this note, distributable earnings amount to 2,844,169, and it is proposed that they be allocated as follows:

| | |
|---|---|
| - Optional Reserve – Future distribution of earnings | 1,066,563 |
| - Cash dividends | 1,777,606 |
| **Total** | 2,844,169 |

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

| | **12/31/2017** | **12/31/2016** |
|---|---|---|
| Cash | 3,075,161 | 2,489,434 |
| BCRA – Current account (1) | 10,893,579 | 7,416,575 |
| Balances with other financial institutions (1) | 453,662 | 979,191 |
| | 14,422,402 | 10,885,200 |

(1) As of December 31, 2017 and 2016, those accounts did not bear any interest.

The table below includes a breakdown of the main financial institutions in which funds are deposited as of December 31, 2017 and 2016:

| | **12/31/2017** | **12/31/2016** |
|---|---|---|
| Banco de la Nación Argentina | 186,671 | 157,598 |
| Bank of America | 59,220 | 70,736 |
| J.P. Morgan Chase Bank | 42,290 | 57,133 |
| Citibank N.Y. | 36,966 | 84,899 |
| Unicrédito Italiano S.p.A. | 34,071 | 17,701 |
| Standard Chartered Bank | 28,368 | 271,220 |
| Intesa Sanpaolo SPA | 24,305 | 10,873 |
| Euroclear Bank S.A. | 9,671 | 8,963 |
| UBS NY | 8,589 | 7,164 |
| Other | 23,511 | 292,904 |
| | 453,662 | 979,191 |

*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 33).

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

(In thousands of Argentine pesos)

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, 2017, and 2016:

| Item | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Due from the BCRA (Argentine Central Bank) | | |
| BCRA – Current account - Unrestricted | 10,893,579 | 7,416,575 |
| BCRA – Special guarantee accounts - Restricted | 895,593 | 641,528 |
| | **11,789,172** | **8,058,103** |

## 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 36).

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| BCRA – Special guarantee accounts | 895,593 | 641,528 |
| Central Bank of Uruguay – Special guarantee accounts | 9,387 | 7,925 |
| | **904,980** | **649,453** |

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

### Financial assets measured at fair value:

| Description | Maturity | Currency | Rate | Amortization | 12/31/2017 |
|---|---|---|---|---|---|
| BCRA bills | from 01/17/18 to 09/19/18 | ARS | Issuance with discount | Upon maturity | 11,404,988 |
| Treasury bills in USD maturity April 2018 | 04/13/18 | USD | Issuance with discount | Upon maturity | 481,119 |
| Treasury bills in USD maturity January 2018 | 01/26/18 | USD | Issuance with discount | Upon maturity | 457,352 |
| Argentine Government Bond in USD USD 6.875% 2021 | 04/22/21 | USD | 6.88% | Upon maturity | 272,069 |
| Treasury bills in USD Vto February 2018 | 02/09/18 | USD | Issuance with discount | Upon maturity | 254,234 |
| Treasury bills in USD Vto June 2018 | 06/29/18 | USD | Issuance with discount | Upon maturity | 212,557 |
| Discount bonds in ARS + negative value GDP ARS | 12/31/33 | ARS | 5.83% + cer | 20 six-monthly installments | 170,151 |
| Treasury bills in USD Vto Marcho 2018 | 03/16/18 | USD | Issuance with discount | Upon maturity | 142,312 |
| Treasury bills in USD Vto June 2018 | 06/15/18 | USD | Issuance with discount | Upon maturity | 141,346 |
| Argentine Government Bond in ARS Badlar + 250 B,P, (BONAR 2019) | 03/11/19 | ARS | Badlar + 2.5% | Upon maturity | 85,596 |
| Debt Title of the Province of Río Negro in ARS C1 | 07/06/20 | ARS | Badlar + 5.0% | Upon maturity | 58,449 |
| Treasury Bills of the Province of Río Negro Guaranteed in ARS C1 S6 | 05/09/18 | ARS | Issuance with discount | Upon maturity | 58,283 |
| Treasury Bills of the Province of Neuquén Guaranteed in ARS C1 S1 | 09/09/20 | ARS | Badlar + 4.75% | 4 quarterly installment | 50,450 |
| Other | | | | | 243,978 |
| | | | | | **14,032,884** |

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(In thousands of Argentine pesos)

## Financial liabilities measured at fair value:

| Description | Maturity | Currency | Rate | Amortization | 12/31/2017 |
|---|---|---|---|---|---|
| National Treasury Bonus in ARS 2.5% (BONCER 2021) | 07/22/21 | ARS | 2.5% + cer | Upon maturity | 2,711 |
| Argentine Government Bond in ARS Badlar + 300 P.B. | 04/03/22 | ARS | Badlar + 2.0% | Upon maturity | 20,121 |
| | | | | | **22,832** |

## Financial assets measured at fair value:

| Description | Maturity | Currency | Rate | Amortization | 12/31/2016 |
|---|---|---|---|---|---|
| BCRA bills | From 01/04/16 to 07/19/17 | ARS | Issuance with discount | Upon maturity | 9,529,260 |
| 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 |
| 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 |
| Argentine Government Bond USD 0.75% (BONAD 2017) | 02/22/17 | USD | 0.75% | Upon maturity | 126,787 |
| Argentine Government Bond USD 0.75% | 09/21/17 | USD | 0.75% | Upon maturity | 126,251 |
| Argentine Government Bond in ARS Badlar + 250 B.P. (BONAR 2019) | 03/11/19 | ARS | Badlar + 2.5% | Upon maturity | 107,987 |
| 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 |
| 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 |
| 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 |
| 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 |
| Other | | | | | 99,613 |
| | | | | | **12,641,297** |

ARS : Argentine pesos
USD: US Dollars

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|---|---|---|
| Executive Manager of Administration | Superintendent<br>Finance, Administration and Public Sector Area | President |

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 July 14, 2017, in USD, fully amortized upon maturity on April 13, 2018, and interest at a discount.

3) Treasury Bills issued by the Argentine Government on June 16, 2017, in USD, fully amortized upon maturity on January 26, 2018, and interest at a discount.

4) 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.

5) Treasury Bills issued by the Argentine Government on June 30, 2017, in USD, fully amortized upon maturity on February 9, 2018, and interest at a discount.

6) Treasury Bills issued by the Argentine Government on June 30, 2017, in USD, fully amortized upon maturity on June 29, 2018, and interest at a discount.

7) 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.

8) Treasury Bills issued by the Argentine Government on August 25, 2017, in USD, fully amortized upon maturity on March 16, 2018, and interest at a discount.

9) Treasury Bills issued by the Argentine Government on June 16, 2017, in USD, fully amortized upon maturity on June 15, 2018, and interest at a discount.

10) 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. 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.

11) Debt securities of the Province of Río Negro Class 1: at July 6, 2017 the Province of Río Negro issued debt securities in pesos, with an annual rate equivalent to private Badlar rate more a fixed margin of 5 basis points. The amortization will be made in full by the due date at July 6, 2020.

12) Treasury bill of the Province of Río Negro Guaranteed Class 1 Serie 6: at November 10, 2017 were issued treasury bills of the Province of Río Negro Serie 1 Class 1 in pesos with a maturity of 180 days. The amortization will be made in full by the due date the May 9, 2018 and the interest is a discount,

13) Secured Treasury Bills of the Province of Neuquén Class 1 Series 1: treasury bills of the Province of Neuquén 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%.

14) 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.

15) Argentine government bonds (BOCAN 2022): are bonds in pesos issued at April 3, 2017 by the National Government, with total amortization when due in April 3, 2022. The interest rate payable on a quarterly basis is equivalent to private Badlar rate more a margin of 200 basis points.

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.

**NOTE 20: Derivative financial instruments**

In the ordinary course of business, the Group entered into forward instruments with daily or monthly settlement of differences without delivery of the underlying assets, they are measured at fair value. 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, 2017 and 2016, in thousands of the original currency, are broken down as follows:

| | Notional value as of | |
|---|---|---|
| | **12/31/2017** | **12/31/2016** |
| Forward purchases of foreign currency | USD 49,770 | USD 94,066 |
| Forward sales of foreign currency | USD 48,886 | USD 156,369 |
| Interest rate swaps | - | - |

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, 2017 and 2016, the fair value of forward transactions with monthly settlement is 6,099, and 10,312, respectively, for the transactions that resulted in balances receivable, and of 14,058 and 11,606, respectively, for the transactions that resulted in balances payable.

Gains on forward foreign currency instruments as of December 31, 2017 and 2016 amounted to 136,437 and 181,413, respectively (see Note 8).

**NOTE 21: Loans**

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

| | **12/31/2017** | **12/31/2016** |
|---|---|---|
| Notes | 18,598,935 | 15,926,974 |
| Credit cards | 10,556,246 | 7,371,433 |
| Consumer loans | 8,924,529 | 6,158,502 |
| Overdrafts | 7,312,230 | 5,129,774 |
| Loans to car dealers | 5,042,857 | 899,809 |
| Car loans | 4,614,405 | 3,266,836 |
| Loans to financial institutions | 2,306,246 | 1,416,542 |
| Export pre-financing loans | 2,300,004 | 2,251,947 |
| Finance lease | 1,353,455 | 1,445,127 |
| Amounts receivable from repo transactions with financial institutions | 1,089,163 | 614,863 |
| Amounts receivable from the sale of securities with financial institutions | 411,187 | - |
| Loans granted to Public Sector Agencies | 375,298 | 433,351 |
| Mortgage loans | 224,697 | 72,966 |
| Amounts receivable from repo transactions with non-financial institutions | - | 32,809 |
| Amounts receivable from the sale of securities with non-financial institutions | - | 16,393 |
| Other loans | 823,109 | 1,235,618 |
| Interest and similar items receivable | 880,253 | 658,671 |
| Total loans | 64,812,614 | 46,931,615 |
| Allowances for loan losses | (1,484,516) | (1,042,724) |
| **Total** | 63,328,098 | 45,888,891 |

(In thousands of Argentine pesos)

Loans by type as of December 31, 2017 and 2016 are as follows:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Commercial loans | 38,021,159 | 28,152,086 |
| Consumer loans | 26,566,758 | 18,706,563 |
| Mortgage loans | 224,697 | 72,966 |
| Total | 64,812,614 | 46,931,615 |

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

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 | 12/31/2017 | | 12/31/2016 | |
|---|---|---|---|---|
| Term | Total gross investment | Present value of minimum lease payments | Total gross investment | Present value of minimum lease payments |
| Up to 1 year | 867,680 | 613,437 | 821,572 | 540,660 |
| From 1 to 5 years | 888,605 | 752,247 | 1,121,028 | 919,248 |
| More than 5 years | 4,508 | 4,082 | 539 | 406 |
| | 1,760,793 | 1,369,766 | 1,943,139 | 1,460,314 |

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Capital | 1,353,455 | 1,445,127 |
| Interest receivable | 16,311 | 15,187 |
| Total | 1,369,766 | 1,460,314 |

As of December 31, 2017 and 2016, unearned finance income amounted to 391,027, and 482,825, respectively, and accumulated allowances for loan losses amounted to 29,258, and 25,450, respectively.

*Allowances for loan losses*

| Changes in allowances by type of loan | Mortgage loans | Consumer loans | Commercial loans | Total |
|---|---|---|---|---|
| Balances as of January 1, 2017 | 1,314 | 762,351 | 279,059 | 1,042,724 |
| Provisions made during the year | 4,585 | 622,773 | 130,231 | 757,589 |
| Provisions used during the year | (2,109) | (263,680) | (50,008) | (315,797) |
| **Balances as of December 31, 2017** | 3,790 | 1,121,444 | 359,282 | 1,484,516 |

(In thousands of Argentine pesos)

| | | | | |
|---|---|---|---|---|
| **Assessment** | | | | |
| Collectively assessed allowances | 3,715 | 693,132 | 227,044 | 923,891 |
| individually assessed allowances | 75 | 428,312 | 132,238 | 560,625 |
| | 3,790 | 1,121,444 | 359,282 | 1,484,516 |

| **Changes in allowances by type of loan** | **Mortgage loans** | **Consumer loans** | **Commercial loans** | **Total** |
|---|---|---|---|---|
| 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) |
| **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 |
| Individually assessed allowances | 449 | 292,699 | 94,198 | 387,346 |
| | 1,314 | 762,351 | 279,059 | 1,042,724 |

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

| | **12/31/2017** | | | **12/31/2016** | | |
|---|---|---|---|---|---|---|
| | **Collectively assessed allowances** | **Individually assessed allowances** | **Total** | **Collectively assessed allowances** | **Individually assessed allowances** | **Total** |
| At the beginning of the year | 655,378 | 387,346 | 1,042,724 | 499,524 | 369,824 | 869,348 |
| Loan losses for the year, net of recoveries | 268,513 | 489,076 | 757,589 | 156,717 | 290,092 | 446,809 |
| Provisions used during the year | - | (315,797) | (315,797) | (863) | (272,570) | (273,433) |
| At year-end | 923,891 | 560,625 | 1,484,516 | 655,378 | 387,346 | 1,042,724 |

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

| | **12/31/2017** | **12/31/2016** |
|---|---|---|
| Loan losses for the year | (757,589) | (446,809) |
| Recovery of loans | 64,052 | 78,466 |
| Net impairment loss on financial assets for the year | (693,537) | (368,343) |

(In thousands of Argentine pesos)

*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.

As of December 31, 2017 and 2016, the Bank has issued guarantees, loan commitments and letters of credit as follows:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Unused agreed overdrafts | 200,000 | 2,180,698 |
| Unused credit card limits | 20,981,956 | 15,128,449 |
| Guarantees granted | 608,628 | 510,363 |
| Obligations from foreign trade transactions | 158,867 | 204,103 |
| Letters of credit | 157,184 | 164,359 |
| | 22,106,635 | 18,187,972 |

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 39.

## NOTE 22: Other receivables

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

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Sundry receivables | 309,495 | 104,589 |
| Corporate bonds purchased (1) | 728 | 70,999 |
| Trust securities (2) | 10,008 | 824 |
| Other | 345,978 | 226,363 |
| | 666,209 | 402,775 |
| Allowance for other receivables losses | (35,654) | (36,107) |
| | 630,555 | 366,668 |

(1) As of December 31, 2017 and 2016, the corporate bonds purchased in local currency accrue interest at a weighted average rate of 3.55%, and 24.34%, respectively, and have a weighted average term of 48, and 8 months, respectively. In addition, as of December 31, 2016, holdings in US dollars accrue interest at an annual nominal rate of 3.88%, and have a weighted average term of 1 month.

(2) As of December 31, 2017 and 2016, effective trust securities are receivables with fixed installments earning interest at a weighted average, annual, nominal rate of 26.75%, and 22.18%, respectively, the weighted average term of which is 2, and 1 months, respectively.

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

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| At the beginning of the year | 36,107 | 18,890 |
| Loan losses for the year (see Note 12) | 4,257 | 19,977 |
| Provisions used during the year | (4,710) | (2,760) |
| **At year-end** | 35,654 | 36,107 |

## NOTA 23: Non-current Assets Held for Sale

| | 12/31/2017 |
|---|---|
| Non-current Assets Held for Sale | 34,382 |
| | 34,382 |

Correspond to a property situated in the Buenos Aires that, as it is not included in branch operations, the Group has decided to initiate an active plan to sale the property at a reasonable price.

At December 31, 2017 the asset is valued at its fair value less selling expenses, which is not depreciating since its inclusion in the category “available for sale”. This assessment generated a diminution in the carrying value as of the date of the reclassification of $4,981, includes in “Other operating expenses”.

At December 31, 2017 the property is in the process of being sold with firm commitments.

## NOTE 24: 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 12/31/2017 |
|---|---|---|---|---|---|---|
| Estimated useful life in years | 50 | 10 | 5 | 5 | 5 - 50 | |
| Cost: | | | | | | |
| As of January 1, 2017 | 350,382 | 132,514 | 399,285 | 26,296 | 243,514 | 1,151,991 |
| Revaluation of Real states (1) | 1,844,283 | - | - | - | - | 1,844,283 |
| Additions | 14,683 | 16,648 | 43,306 | 13,527 | 81,370 | 169,534 |
| Disposals | (40,000) | (98) | (659) | (2,057) | (43,880) | (86,694) |
| Transfers | 24,226 | - | - | - | (24,226) | - |
| **As of December 31, 2017** | **2,193,574** | **149,064** | **441,932** | **37,766** | **256,778** | **3,079,114** |
| | | | | | | |
| Accumulated depreciation: | | | | | | |
| As of January 1, 2017 | 54,353 | 62,415 | 157,550 | 16,682 | 22,119 | 313,119 |
| Revaluation of Real states | (53,088) | - | - | - | - | (53,088) |
| Disposals | (3,926) | (53) | (607) | (528) | (3,103) | (8,217) |
| Depreciation for the year | 45,539 | 11,219 | 68,303 | 3,072 | 28,140 | 156,273 |
| **As of December 31, 2017** | **42,877** | **73,581** | **225,246** | **19,226** | **47,156** | **408,086** |
| | | | | | | |
| **Net carrying value as of December 31, 2017** | **2,150,697** | **75,483** | **216,686** | **18,540** | **209,622** | **2,671,028** |

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(1) Recognized in Other comprehensive income (ORI, for its acronym in Spanish) as shown below:

| | Property movements | Tax effect | Total recognized in ORI |
|---|---|---|---|
| Revaluation | 1,897,371 | (483,886) | 1,413,485 |

As it has been mentioned in the Note 3 of this consolidated condensed interim financial statements, since 1 January 2017, the Group changed its accounting policy of property valuation.

In compliance with the new accounting policy, the Group has contracted an independent expert assessment specialist to determinate the fair value and reassessment of the useful life of the real states in 1 January 2017.

To determinate the fair value was used the market approach, which starts from the premise that a knowledgeable buyer will not pay for one asset more than the acquisition cost of similar ones, that is to say providing an indication of the value of a property by comparing the price of similar properties.

The assets subject to revaluation are a topic of frequent trading and, on the date of the analysis, there are units with a price level known in the marketplace or was possible to the independent appraiser to obtain opinions of agents or realtors in the areas of each property. Therefore, there are stable markets of similar used properties offered for purchase – sale to determinate the fair value by means of the market approach.

For properties more significant, subject to revaluation, have been considered the following ranges of values by $m^2$:

- ✓ In the autonomous city of Buenos Aires
    - For offices in horizontal property, the reference values vary from 25.000 to 36.000 $/m2.
    - For commercial locations, the values vary from 25.000 to 106.000 $/m2.
    - For other properties, the values vary from 17.000 to 38.000 $/m2.
- ✓ In the Province of Buenos Aires
    - In buildings, the values vary from 10.000 and 17.000 $/m2.
    - For land, the values vary from 400 a 12.000 $/m2.
- ✓ In the interior of the country
    - For commercial locations, values vary from 19.000 and 76.000 $/m2.
    - For other properties, the values vary from 9.000 a 14.000 $/m2.

(In thousands of Argentine pesos)

A higher value by $m^2$ will result in a higher fair value of revalued properties.

Additionally, the following characteristics were considered to determinate the fair value of each property:

- ✓ Location in the area
- ✓ Location in the block
- ✓ Location in the building
- ✓ Infrastructure services
- ✓ Front
- ✓ Surface
- ✓ Occupied surface
- ✓ Constructive quality
- ✓ Aging
- ✓ Maintenance
- ✓ Marketing

Since the revaluation of property (considered a non-recurring valuation) is based in unobservable market data, correspond to a fair value Level 3.

The evolution of the residual value of the property compared with the residual value than it would have if the real state was valued applying cost model and taking into account the impact of the re-estimation of the service lives as follow:

| | Cost model | Revaluation model |
|---|---|---|
| Residual value in 1 January 2017 | 296,029 | 296,029 |
| Additions | 14,683 | 14,683 |
| Divestitures | (1,611) | (49,251) |
| Transfers | 37,403 | 37,403 |
| Revaluation | - | 1,897,371 |
| Devaluation during the period | | |
| • Applying the estimated service lives before the revaluation | (8,977) | |
| • Effect of the change of estimated service lives | 2,510 | |
| Total | (6,467) | (45,539) |
| Residual value at December 31, 2017 | 340,037 | 2,150,697 |

(In thousands of Argentine pesos)

| | Land and buildings | Furniture and fixtures | Machinery and equipment | Vehicles and aircraft | Other miscellaneous assets(1) | Total as of 12/31/2016 |
|---|---|---|---|---|---|---|
| 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** |

(1) Includes the assets that the Bank does not currently use in branches' operations, amounting to 42,390, as of December 31, 2016. 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 25: 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 12/31/2017** |
|---|---|
| Cost: | |
| **As of January 1, 2017** | 28,457 |
| Additions | 29,153 |
| **As of December 31, 2017** | **57,610** |
| Accumulated amortization: | |
| **As of January 1, 2017** | 2,089 |
| Amortization for the year | 8,747 |
| **As of December 31, 2017** | **10,836** |
| **Net carrying value as of December 31, 2017** | **46,774** |

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| **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** |

## NOTE 26: Other assets

| | **12/31/2017** | **12/31/2016** |
|---|---|---|
| **Financial assets** | **500,807** | **220,864** |
| Security deposits (see Note 36) | 310,657 | 214,908 |
| Other | 190,150 | 5,956 |
| **Non-financial assets** | **250,420** | **190,136** |
| Advance payments | 224,602 | 155,194 |
| Prepayments for purchases of assets | 7,305 | 20,869 |
| Works of art | 3,691 | 5,878 |
| Other | 14,822 | 8,195 |
| | 751,227 | 411,000 |

## NOTE 27: Financing facilities received from financial institutions

| | **12/31/2017** | **12/31/2016** |
|---|---|---|
| HSBC Bank Argentina SA | 550,548 | 40,619 |
| Corporación Financiera Internacional | 389,838 | 325,705 |
| Standard Chartered Bank | 371,731 | 428,684 |
| Banco de Inversión y Comercio Exterior | 348,417 | 179,679 |
| JPMorgan Chase Bank National A | 318,476 | - |
| Banco de la Nación Argentina | 263,933 | 46,382 |
| Banco de Galicia y Buenos Aires SA | 255,201 | 135,490 |
| Banco de la Prov. de Buenos Aires | 252,607 | - |
| Sociedad de Promoción y Participación para la Cooperación Económica - Agencia Francesa de Desarrollo (Proparco) | 182,084 | 216,067 |
| Banco Santander Rio S.A. | 169,888 | - |
| Banco Bradesco Argentina SA | 165,657 | 60,226 |
| BNP Paribas SA | 162,184 | 114,795 |
| Other | 817,991 | 915,574 |
| | 4,248,555 | 2,463,221 |

(In thousands of Argentine pesos)

They correspond to, mainly, transaction-based balance of passive swap, by lines of credit for pre-financing of imports without warranty and by funding lines of international organizations, agreed at variable rates. Transactions in foreign currency accrue interest at a weighted average annual nominal rate of 4%. Transactions in local currency accrue interest at a weighted average annual nominal rate of 25%.

During fiscal years 2017 and 2016, 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.

## NOTE 28: Deposits

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

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **Nonfinancial public sector** | **4,666,896** | **3,297,391** |
| Checking accounts | 2,394,111 | 1,623,215 |
| Time deposits | 1,702,125 | 1,421,568 |
| Other | 522,904 | 228,299 |
| Interest payable | 47,756 | 24,309 |
| **Financial sector** | **13,179** | **6,029** |
| **Nonfinancial private sector and foreign residents** | **64,382,514** | **48,916,225** |
| Checking accounts | 9,178,556 | 7,104,149 |
| Savings accounts | 30,054,516 | 18,272,215 |
| Time deposits | 22,518,949 | 21,329,100 |
| Other | 2,151,539 | 1,782,986 |
| Interest and similar items payable | 478,954 | 427,775 |
| | 69,062,589 | 52,219,645 |

*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, 2017 and 2016, such deposit guarantee amounts to 25,865,991, and 19,211,329, respectively.

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|---|---|---|
| Executive Manager of Administration | Superintendent<br>Finance, Administration and Public Sector Area | President |

(In thousands of Argentine pesos)

## NOTE 29: Corporate bonds

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

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Banco Patagonia S.A. | - | 348,989 |
| GPAT Compañía Financiera S.A. | 2,235,141 | 1,233,763 |
| | 2,235,141 | 1,582,752 |

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.

(In thousands of Argentine pesos)

As of December 31, 2016, principal plus accrued interest amounted to 351,957. Subsequently on January 23, 2017, the Bank paid the principal and interest on such corporate bond.

In virtue of the expiration of Global Program for the Issue of Simple Corporate Bonds in force, the Ordinary General Meeting of Shareholders held in 27 April 2007 approved the extension of this program in accordance with the CNV rules, as well as an increase of maximum amount in circulation, as outlined below:

a) Validity for a period of 5 years from the time of CNV authorization or the maximum deadline as may be fixed by future regulations that might apply;

b) May be issued different classes and/or series of negotiable obligations denominated in US dollars or other currencies and to re-issue the successive classes or series to be amortized;

c) The amount of OR$S 500.000.000 or equivalent in other currencies will be the maximum amount in circulation over the lifetime of the program; and

d) Funding to be obtained by colocation of the negotiable obligations to be issued under the program will be intended to one or more of destination covered by Article 36 of the Law N° 23.576 and its amendments and in the Passive Operations Rules, Section of Placing of Securities Titles and Debt of BCRA, or those set forth in the applicable regulations and as defined in the respective price supplement.

Finally, at September 14, 2017 the CNV authorized by means of the Resolution Nº 18933 the increase of maximum amount and the extension of the aforementioned program.

2, <u>GPAT´s Global corporate bond issuance program approved by CNV on February 11, 2011</u>

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.

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, 2011, 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.

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|---|---|---|

(In thousands of Argentine pesos)

At January 3, 2017, the Board of Directors of GPAT proposed the ampliation of Global Program for the Issue of Simple Corporate Bonds in force of ARS 1.500.000.000 to ARS 3.000.000.000, and its renovation for a period of 5 year. The ampliation and extension was approved by the Shareholders Meeting convocated at January 18, 2017, has been approved by National Securities Commission in April 12, 2017.

The following is a detail of the issuance of Corporate Bonds of GPAT Compañía Financiera S.A. as of December 31, 2017 and 2016:

| Issuance | Currency | Issued value | Annual nominal rate | Issuance date | Maturity date | Balance as of 12/31/2017 | Balance as of 12/31/2016 |
|---|---|---|---|---|---|---|---|
| Series XX Class Mixta | ARS | 250,000 | 28.50% (03/11/2016) Badlar + 425 b.p. | 09/11/15 | 03/11/17 | - | 116,424 |
| Series XXI Class B | ARS | 250,000 | Badlar + 425 b.p. | 01/22/16 | 07/22/17 | - | 262,311 |
| Series XXII Class B | ARS | 155,000 | Badlar + 500 b.p. | 04/08/16 | 10/08/17 | - | 163,439 |
| Series XXIII Class A | ARS | 106,500 | 32.00% (09/14/2016) Badlar +325 b.p. | 06/14/16 | 12/14/17 | - | 104,339 |
| Series XXIII Class B | ARS | 188,889 | 33.00% (09/14/2016) Badlar + 350 b.p. | 06/14/16 | 06/14/19 | 180,492 | 180,216 |
| Series XXIV | ARS | 200,000 | 23.95% | 09/23/16 | 09/23/17 | - | 200,650 |
| Series XXV | ARS | 221,000 | 24.00% | 11/08/16 | 05/08/18 | 207,442 | 206,384 |
| Series XXVI Class A | ARS | 197,143 | 22.49% | 01/24/17 | 01/24/18 | 205,310 | - |
| Series XXVI Class B | ARS | 52,857 | Badlar + 344 b.p. | 01/24/17 | 01/24/19 | 55,285 | - |
| Series XXVII Class A | ARS | 120,556 | Badlar + 299 b.p. | 05/10/17 | 11/10/18 | 124,530 | - |
| Series XXVII Class B | ARS | 177,500 | Badlar + 350 b.p. | 05/10/17 | 05/10/20 | 162,650 | - |
| Series XXVIII Class A | ARS | 276,667 | Badlar + 348 b.p. | 06/27/17 | 12/27/18 | 252,053 | - |
| Series XXVIII Class B | ARS | 123,333 | Badlar + 397 b.p. | 06/27/17 | 06/27/20 | 123,472 | - |
| Series XXIX | ARS | 378,125 | 26.00% | 08/04/17 | 08/04/18 | 392,929 | - |
| Series XXX Class A | ARS | 308,889 | 27.45% | 10/05/17 | 10/05/18 | 328,646 | - |
| Series XXX Class B | ARS | 191,111 | 27.50% (04/05/2018) Badlar + 417 b.p. | 10/05/17 | 10/05/20 | 202,332 | - |
| | | | | | | 2,235,141 | 1,233,763 |

b.p.: Basis points

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### NOTE 30: Other liabilities

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **Financial liabilities** | **5,414,390** | **3,360,806** |
| Credit card charges payable | 3,141,508 | 1,940,435 |
| Payables from foreign trade transactions | 718,512 | 512,777 |
| Collections on account and on behalf of third parties | 593,473 | 483,679 |
| Sundry payables | 162,376 | 173,056 |
| Other financial liabilities (1) | 798,521 | 250,859 |
| **Nonfinancial liabilities** | **2,735,489** | **2,357,799** |
| Taxes payable | 1,624,675 | 1,560,244 |
| Payroll and social security contributions | 854,017 | 594,373 |
| Customer loyalty program (Note 3.3.s)) | 111,423 | 104,564 |
| Withholdings on salaries | 44,026 | 58,720 |
| Other nonfinancial liabilities | 101,348 | 39,898 |
| | 8,149,879 | 5,718,605 |

(1) Includes credit facilities initially recognized at fair value of the fee received amounting to 28 as of December 31, 2017, and 2016, respectively.

### NOTE 31: 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 2017 and 2016:

| | Provisions | | |
|---|---|---|---|
| **Changes in provisions** | **Labor and legal (1)** | **Other (2)** | **Total** |
| As of January 1, 2017 | 88,163 | 52,471 | 140,634 |
| Net expense for the year (See Note 12) | 6,427 | 92,470 | 98,897 |
| Provisions used during the year | (3,912) | (18,200) | (22,112) |
| **As of December 31, 2017** | 90,678 | 126,741 | 217,419 |
| **Maturity of provisions** | | | |
| Less than 12 months | 10,460 | 3,312 | 13,772 |
| Over 12 months | 80,218 | 123,429 | 203,647 |
| **As of December 31, 2017** | 90,678 | 126,741 | 217,419 |

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| | 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 |

(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 32: 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 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.

(In thousands of Argentine pesos)

**NOTE 33: 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.

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** | **12/31/2017** | **12/31/2016** |
|---|---|---|
| Credit risk (1) | 5,551,911 | 4,134,464 |
| Market risk (2) | 82,490 | 141,807 |
| Operational risk (3) | 1,465,502 | 1,174,754 |
| **Mandatory consolidated minimum capital as per BCRA regulations** | **7,099,903** | **5,451,025** |
| Ordinary Capital Level 1 (4) | 10,640,127 | 8,809,290 |
| Deductible items OC L1 (5) | (162,190) | (75,859) |
| Ordinary Capital Level 2 (6) | 617,588 | 452,887 |
| **Consolidated computable equity as per BCRA regulations** | **11,095,525** | **9,186,318** |
| **Capital surplus** | **3,995,622** | **3,735,293** |

(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) 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.

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(5) 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.

(6) 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 34: 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, 2017 and 2016 the future minimum lease payments under non-cancellable operating leases were payable as follows:

| | **12/31/2017** | **12/31/2016** |
|---|---|---|
| Up to 1 year | 147,131 | 119,840 |
| From 1 to 5 years | 221,627 | 180,236 |
| More than 5 years | 3,528 | 174 |
| **Total** | **372,286** | **300,250** |

Operating lease expenses recognized in profit or loss (which includes the contingent rent expense) amounts, to 156,261, and 117,765 as of December 31, 2017 and 2016, respectively. These amounts are part of “Other Operating Expenses – Rentals”.

(In thousands of Argentine pesos)

**NOTE 35: 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.

| | Balances | | Highest balance of the year (1) | |
|---|---|---|---|---|
| | 12/31/2017 | 12/31/2016 | 12/31/2017 | 12/31/2016 |
| Cash and cash equivalents - Balances in other financial entities | 4,890 | 38,718 | 51,604 | 60,857 |
| Other receivables | 94,772 | 79,694 | 260,173 | 107,148 |
| Deposits | 4,498 | 213 | 21,267 | 24,041 |
| Financing facilities received from financial institutions | - | - | - | 1,731,561 |
| Guarantees granted (2) | 17,460 | 30,179 | 31,604 | 30,179 |
| Guarantees received (3) | 75,097 | 58,646 | 75,097 | 178,280 |

(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.

The results for the fiscal years ended in December 31, 2017 and 2016 were:

| | Highest balance of the year | |
|---|---|---|
| | 12/31/2017 | 12/31/2016 |
| Interest income and similar | 3,623 | 2,948 |
| Interest expenses and similar | - | 32,602 |
| Commission income | 3 | - |
| Commission expenses | - | 184 |
| Other operative income | 481 | 859 |

(In thousands of Argentine pesos)

*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 42) of the Province of Río Negro.

| | Balances | | Highest balance of the year (1) | |
|---|---|---|---|---|
| | 12/31/2017 | 12/31/2016 | 12/31/2017 | 12/31/2016 |
| Financial assets at fair value - Bonds issued by the Province of Rio Negro. | 117,561 | 226 | 117,561 | 227 |
| Overdrafts | - | - | 699,245 | 909,585 |
| Syndicated loan | 144,746 | 216,856 | 210,794 | 254,177 |
| Notes | - | - | 415 | - |
| Deposits | 46,668 | 57,580 | 1,377,692 | 950,470 |

(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.

The results for the fiscal years ended in December 31, 2017 and 2016 were:

| | Highest balance of the year | |
|---|---|---|
| | 12/31/2017 | 12/31/2016 |
| Interest income and similar | 85,360 | 133,212 |
| Commission income | 51,396 | 43,675 |

The transactions carried outs with the Province of Río Negro, were all performed under market conditions.

*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 thousands of Argentine pesos)

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.

| | **Balance** | | **Highest balance for the year (1)** | |
|---|---|---|---|---|
| | **12/31/2017** | **12/31/2016** | **12/31/2017** | **12/31/2016** |
| Personal loans | - | 153 | 154 | 274 |
| Credit cards | 824 | 1,301 | 1,592 | 1,345 |
| Overdrafts | 213 | - | 580 | 2,729 |
| Notes | - | - | - | 27,035 |
| Deposits | 17,771 | 12,213 | 55,094 | 12,213 |
| Guarantees granted | - | 119 | - | 119 |

(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 2017, and 2016 amounted to 72,397, and 54,332, respectively.

## NOTE 36: Restricted assets

| | **12/31/2017** | **12/31/2016** |
|---|---|---|
| **Special guarantee accounts** (See Note 18) (1) | 904,980 | 649,453 |
| **Financial assets measured at fair value** | | |
| BCRA Bills (1) | 295,188 | 137,810 |
| Government securities – IADB loan – Global Credit Program for micro-, small- and medium-sized enterprises (2) | 225,811 | 111,910 |
| BCRA Bills (3) | 203,296 | 12,642 |
| Treasury bond $ TPM V.2020 | 3,231 | - |
| Argentine Government Bond in ARS Private Badlar + 325 (3) | - | 2,297 |
| Share of Mercado de Valores S.A. (4) | - | 2,064 |
| **Other assets** | | |
| Guarantees at credit card managers | 291,862 | 189,215 |
| Other security deposits | 5,687 | 15,276 |
| Court deposits | 13,108 | 10,417 |
| **Other** | 37,179 | 95,468 |
| **TOTAL** | **1,980,342** | **1,226,552** |

(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.

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(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) They are used as security for repurchase agreements.

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

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

## NOTE 37: Loans and deposits concentration

| Number of customers | Loans | | | |
|---|---|---|---|---|
| | 12/31/2017 | | 12/31/2016 | |
| | Outstanding amount | % | Outstanding amount | % |
| 10 largest customers | 6,720,025 | 10.37% | 4,660,442 | 9.93% |
| 50 next largest customers | 10,324,727 | 15.93% | 7,942,434 | 16.92% |
| 100 next largest customers | 7,401,011 | 11.42% | 6,002,303 | 12.79% |
| Rest of customers | 40,366,851 | 62.28% | 28,326,436 | 60.36% |
| Total (See Note 21) | **64,812,614** | **100.00%** | **46,931,615** | **100.00%** |

| Number of customers | Deposits | | | |
|---|---|---|---|---|
| | 12/31/2017 | | 12/31/2016 | |
| | Outstanding amount | % | Outstanding amount | % |
| 10 largest customers | 7,807,427 | 11.30% | 5,258,463 | 10.07% |
| 50 next largest customers | 7,806,441 | 11.30% | 5,489,787 | 10.51% |
| 100 next largest customers | 3,794,063 | 5.50% | 3,278,081 | 6.28% |
| Rest of customers | 49,654,658 | 71.90% | 38,193,314 | 73.14% |
| Total (See Note 28) | **69,062,589** | **100.00%** | **52,219,645** | **100.00%** |

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## NOTE 38: 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:

| | Level 1 | Level 2 | Total as of 12/31/2017 |
|---|---|---|---|
| **Financial Instruments measured at fair value** | **13,179,966** | **852,918** | **14,032,884** |
| BCRA instruments | 11,404,988 | - | 11,404,988 |
| National Treasury bonds | 1,098,589 | 669,909 | 1,768,498 |
| National Government bonds | 617,099 | 6 | 617,105 |
| Provincial Governments bonds | - | 183,003 | 183,003 |
| US Treasury Bonds | 46,787 | - | 46,787 |
| Other | 12,503 | - | 12,503 |
| **Derivative financial instruments** | **-** | **6,099** | **6,099** |
| **TOTAL ASSETS** | **13,179,966** | **859,017** | **14,038,983** |
| **Liabilities financial** | **22,832** | **-** | **22,832** |
| National Government Bonds | 22,832 | - | 22,832 |
| **Derivative financial instruments** | | 14,058 | 14,058 |
| **TOTAL LIABILITIES** | **22,832** | **14,058** | **36,890** |

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| | Level 1 | Level 2 | Total as of 12/31/2016 |
|---|---|---|---|
| **Financial Instruments measured at fair value** | **1,348,127** | **11,293,170** | **12,641,297** |
| BCRA instruments | 373,499 | 9,155,759 | 9,529,258 |
| National Treasury bonds | 197,772 | 1,662,839 | 1,860,611 |
| National Government bonds | 776,710 | 391,365 | 1,168,075 |
| Provincial Governments bonds | - | 78,127 | 78,127 |
| Other | 146 | 5,080 | 5,226 |
| **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** |

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:* At December 31, 2007, includes mainly Treasury bills in USD, Debt securities of the Province of Río Negro, and Treasury bills of the Provinces of Río Negro and Neuquén. 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, 2017 and 2016 it includes forward instruments with monthly settlement estimated as the difference between the agreed-upon values and market prices.

<u>Transfers between hierarchy levels</u>

| | Transfers from level 1 to level 2 | |
|---|---|---|
| | **12/31/2017** | **12/31/2016** |
| Financial assets measured at fair value (1) | | 380,406 |

(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.

| | Transfers from level 2 to level 1 | |
|---|---|---|
| | **12/31/2017** | **12/31/2016** |
| Financial assets measured at fair value (1) | 22,870 | - |

The amount at December 31, 2017, corresponds mainly to Funding Bonds Series 8 in tenure, Covered Bonds 2018 and Pair Bonds in $ Step Up, including in the level Class 2 at December 31, 2016 that, at December 31, 2017 were registered at fair value using quotations in active markets.

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Fair value of financial assets and liabilities unrecorded at fair value

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.

*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 12/31/2017 | | | | |
|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Fair value Total** | **Carrying amount** |
| ***Financial assets*** | | | | | |
| Cash and cash equivalents | - | - | - | (1) | 14,422,402 |
| Special guarantee accounts | - | - | - | (1) | 904,980 |
| Loans | - | - | 62,690,270 | 62,690,270 | 63,328,098 |
| Other receivables | - | - | 630,182 | 630,182 | 630,555 |
| Other financial assets | - | - | - | (1) | 500,807 |
| ***Financial liabilities*** | | | | | |
| Financing facilities received from financial institutions | - | - | - | (1) | 4,248,555 |
| Deposits | - | - | 69,479,982 | 69,479,982 | 69,062,589 |
| Corporate bonds | - | - | 2,150,015 | 2,150,015 | 2,235,141 |
| Other financial liabilities | - | - | - | (1) | 5,414,390 |

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| | 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 |

(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 39: 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) To set out uniform guidelines for the granting of loans following conservative parameters based, in the first instance, in the customer's knowledge, on their solvency and capacity to repay for companies, while, in the case of individuals, these guidelines were supported by the credit behavior, and income level;
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, with relation to customer engagement, there are specialist areas that manage the backlog through different management tools.

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.

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*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 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 2017 | Percentage 2016 | |
|---|---|---|---|---|
| Government securities issued by the Argentine government and by provincial governments | Argentine government | 19% | 25% | a) |
| Bills issued by the BCRA | BCRA | 81% | 75% | b) |

(In thousands of Argentine pesos)

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, 2017 and 2016;
- ✓ 92% of the loan portfolio is considered not to be past due or impaired as of December 31, 2017, and 2016.

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

| | Note | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| Financial assets measured at fair value | 19 | 14,032,884 | 12,641,297 |
| Derivative financial instruments | 20 | 6,099 | 10,312 |
| Loans | 21 | 64,812,614 | 46,931,615 |
| Other receivables | 22 | 666,209 | 402,775 |
| Other financial assets | 26 | 500,807 | 220,864 |
| | | *80,018,613* | *60,206,863* |
| Off balance sheet | | | |
| Unused agreed overdrafts | 21 | 200,000 | 2,180,698 |
| Unused credit card limits | 21 | 20,981,956 | 15,128,449 |
| Guarantees granted | 21 | 608,628 | 510,363 |
| Obligations from foreign trade transactions | 21 | 158,867 | 204,103 |
| Letters of credit | 21 | 157,184 | 164,359 |
| | | *22,106,635* | *18,187,972* |
| **Total** | | **102,125,248** | **78,394,835** |

*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 12/31/2017** |
|---|---|---|---|---|
| Commercial loans | 36,158,991 | 1,719,599 | 142,569 | 38,021,159 |
| Mortgage loans | 221,596 | 2,923 | 178 | 224,697 |
| Consumer loans | 23,158,862 | 2,695,823 | 712,073 | 26,566,758 |
| **Total** | **59,539,449** | **4,418,345** | **854,820** | **64,812,614** |

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| | 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** |

The other financial assets are neither delinquent nor impaired.

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

| | Delinquent, not impaired | | | | Total as of 12/31/2017 |
|---|---|---|---|---|---|
| | Up to 30 | From 31 to 60 | From 61 to 90 | Over 90 | |
| Commercial loans | 1,666,554 | 48,398 | 2,262 | 2,385 | 1,719,599 |
| Mortgage loans | 2,735 | 174 | 14 | - | 2,923 |
| Consumer loans | 2,330,890 | 265,537 | 99,346 | 50 | 2,695,823 |
| **TOTAL** | **4,000,179** | **314,109** | **101,622** | **2,435** | **4,418,345** |

| | 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** |

*Collateral hold by the Bank*

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

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Financial assets | 1,995,819 | 1,274,223 |
| Non-financial assets | 3,969,181 | 3,404,473 |

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.

(In thousands of Argentine pesos)

*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, 2017, and 2016.

| December 31, 2017 | 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 | 1,857,080 | 2,065,270 | (208,190) | | | (208,190) |
| Total | 1,857,080 | 2,065,270 | (208,190) | | | (208,190) |

| December 31, 2017 | 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 | 952,850 | 1,035,639 | (82,789) | | | (82,789) |
| Total | 952,850 | 1,035,639 | (82,789) | | | (82,789) |

| 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) |

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| 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) |

**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).

Financial Risks Management 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 2017, and 2016 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.

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | % | % |
| As of December 31 | 38.8 | 45.3 |
| Average for the year | 44.1 | 45.5 |
| Higher | 49.6 | 50.6 |
| Lower | 38.8 | 42.9 |

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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 12/31/2017 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 14,422,402 | - | - | - | - | 14,422,402 |
| Special guarantee accounts in Central Banks | 904,980 | - | - | - | - | 904,980 |
| Financial assets measured at fair value | 1,653 | 5,654,152 | 9,780,906 | 560,035 | 33,987 | 16,030,733 |
| Derivative financial instruments | - | 6,099 | - | - | - | 6,099 |
| Loans | 8,163,800 | 22,985,945 | 13,758,748 | 20,192,425 | 380,703 | 65,481,621 |
| Other receivables | 591,795 | 38,110 | - | 650 | | 630,555 |
| Other financial assets | 500,807 | - | - | - | - | 500,807 |
| **Total** | **24,585,437** | **28,684,306** | **23,539,654** | **20,753,110** | **414,690** | **97,977,197** |
| | | | | | | |
| Financing facilities received from financial institutions | - | 3,027,915 | 317,301 | 903,339 | - | 4,248,555 |
| Financial liabilities measured at fair value | - | - | 3,821 | 39,111 | - | 42,932 |
| Derivative financial instruments | - | 14,058 | - | - | - | 14,058 |
| Deposits | 42,004,360 | 25,416,748 | 2,838,225 | 122,740 | 1,052 | 70,383,125 |
| Corporate bonds | - | 397,988 | 1,544,612 | 898,582 | - | 2,841,182 |
| Other financial liabilities | 5,412,833 | 258 | 942 | 356 | - | 5,414,389 |
| **Total** | **47,417,193** | **28,856,967** | **4,704,901** | **1,964,128** | **1,052** | **82,944,241** |

| | 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** |

(In thousands of Argentine pesos)

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 12/31/2017 |
|---|---|---|---|---|---|---|---|---|
| Unused agreed overdrafts | 200,000 | - | - | - | - | - | - | 200,000 |
| Unused credit card limits | 20,981,956 | | | | | | | 20,981,956 |
| Guarantees granted | 327,494 | 10,693 | 27,578 | 28,585 | 214,137 | 141 | - | 608,628 |
| Obligations from foreign trade transactions | 24,985 | 45,219 | 36,914 | 25,019 | 26,730 | - | - | 158,867 |
| Letters of credit | 101,126 | 49,417 | 6,641 | - | - | - | - | 157,184 |
| **TOTAL** | 21,635,561 | 105,328 | 71,133 | 53,604 | 240,868 | 141 | - | 22,106,635 |

| | 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 |

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:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **Financial assets** | | |
| Financial assets measured at fair value | 677,763 | 696,350 |
| Loans | 20,572,168 | 15,345,116 |
| Other receivables | 650 | 5,675 |
| | | |
| **Financial liabilities** | | |
| Financing facilities received from financial institutions | 903,339 | 805,174 |
| Financial liabilities measured at fair value | 22,828 | - |
| Deposits | 4,481 | 9,725 |
| Corporate bonds | 724,231 | 388,064 |
| Other financial liabilities | 356 | 1,675 |

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## 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 risk factors 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 VaR varies in accordance with the framework portfolio of assets exposed to market risk and the volatility of the risk factors.

The following table shows the 10-day 99% confidence VaR for the combined portfolios as of and for the years ended December 31, 2017, and 2016:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | (In millions of Argentine pesos) | |
| Minimum for the period | 42.1 | 41.3 |
| Maximum for the period | 64.0 | 200.1 |
| Average for the period | 53.5 | 188.2 |
| As of December 31 | 53.3 | 57.6 |

The permanent monitoring of this risk allows to keep the exposition delimited to establish limits 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.

## Interest rate risk

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 risk of mismatches of interest rates is quantified making a sensitivity analysis of the change in the net asset value in front of an increase of interest rate, taking into account several time horizons and statistical confidence levels, for each relevant currency.

The following table shows the three-month 99% confidence interest rate risk VaR as of and for the years ended December 31, 2017, and 2016.

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | (In millions of Argentine pesos) | |
| Minimum for the period | 671.5 | 505.6 |
| Maximum for the period | 727.3 | 743.6 |
| Average for the period | 688.5 | 573.9 |
| As of December 31 | 671.5 | 636.7 |

*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, 2017 and 2016, the Bank’s open position, denominated in Argentine pesos by currency, is as follows:

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Juan M. Trejo
Superintendent
Finance, Administration and Public Sector Area

João Carlos de Nóbrega Pecego
President

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

| ITEMS | Total as of 12/31/2017 | Euro | US dollars | Pound sterling | Swiss franc | Other |
|---|---|---|---|---|---|---|
| **ASSET POSITION** | | | | | | |
| Cash and cash equivalents | 6,112,067 | 293,318 | 5,797,532 | 1,777 | 2,756 | 16,684 |
| Special guarantee accounts | 25,440 | - | 25,440 | - | - | - |
| Financial assets measured at fair value | 2,127,414 | - | 2,127,414 | - | - | - |
| Loans | 10,732,749 | 14,680 | 10,718,069 | - | - | - |
| Other receivables | 14,202 | 11 | 14,191 | - | - | - |
| Other asset | 410 | 66 | 344 | - | - | - |
| **Total** | **19,012,282** | **308,075** | **18,682,990** | **1,777** | **2,756** | **16,684** |
| **LIABILITY POSITION** | | | | | | |
| Financing facilities received from financial institutions | (1,207,620) | (6,414) | (1,201,206) | - | - | - |
| Deposits | (15,793,394) | (199,025) | (15,594,369) | - | - | - |
| Other liabilities | (1,645,383) | (22,053) | (1,578,961) | (29) | (36) | (44,304) |
| **Total** | **(18,646,397)** | **(227,492)** | **(18,374,536)** | **(29)** | **(36)** | **(44,304)** |
| **DERIVATIVES** | | | | | | |
| Forward – purchases | 959,773 | | 959,773 | | | |
| Forward – sales | (944,366) | | (944,366) | | | |
| **Total** | **15,407** | **-** | **15,407** | **-** | **-** | **-** |
| **Net position** | **381,292** | **80,583** | **323,861** | **1,748** | **2,720** | **(27,620)** |

| 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)** |

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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, 2017, and 2016.

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | (In millions of Argentine pesos) | |
| Minimum for the period | 52.9 | 39.1 |
| Maximum for the period | 123.9 | 182.7 |
| Average for the period | 86.1 | 116.9 |
| As of December 31 | 68.3 | 84.2 |

## NOTE 40: <u>Custodian agent of mutual funds</u>

As of December 31, 2017, and 2016, 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 12/31/2017 |
|---|---|---|---|
| Lombard Renta en Pesos Fondo Común de Inversión | 3,811,902 | 571,483 | 4,383,385 |
| Lombard Capital F,C,I, | 50,682 | 9,286,128 | 9,336,810 |
| Fondo Común de Inversión Lombard Renta Fija | 11,307 | 134,423 | 145,730 |
| Fondo Común de Inversión Lombard Pesos Plus | 370 | - | 370 |
| Fondo Común de Inversión Lombard Ahorro | 6,814 | - | 6,814 |
| Fondo Común de Inversión Lombard Abierto Plus | 112,525 | 600,868 | 713,393 |
| Fondo Común de Inversión Lombard Acciones Líderes | 752 | 81,360 | 82,112 |
| Lombard Renta Fija en Dólares FCI | 359,163 | 1,935,790 | 2,294,953 |
| Lombard Ahorro Plus FCI | 189 | 2,285,014 | 2,285,203 |
| **TOTAL** | **4,353,704** | **14,895,066** | **19,248,770** |

(In thousands of Argentine pesos)

| 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** |

Fees earned as a Custodian Agent are recorded under “Fee income – Custodian Agent” in the amounts of 30,018 and 16,104 in the Consolidated Statement of Profit or Loss as of December 31, 2017 and 2016, 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 41: Assets in trust and FCI

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.

At December 31, 2017 and 2016 the Bank was acting as a trustee for 16 and 24 trusts and managed, through Patagonia Inversora S.A. Sociedad Gerente de Fondos Comunes de Inversión, a total of 9 and 7 investment mutual funds (FCI, for its acronym in Spanish and see Note 40), respectively. The Entity does not respond, under no circumstances, with its own property by obligations assumed in the trust implementation; those only will be satisfied with and up to the full amount of the corpus assets and the proceeds therefrom.

The fees earned by the Bank for acting as a trustee are calculated under the terms of the respective agreements.

The income received by the Group for the above activities has been recorded under the caption “Commission income – Trust activity and F.C.I.” and amounted to 149,253 and 110,779 at December 31, 2017 and 2016, 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.

(In thousands of Argentine pesos)

## NOTE 42: <u>Financial agent of the Province of Río Negro</u>

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.

Finally, as result of the process of tender procedure aforementioned, the April 28, 2017 the Entity was again adjudicated to service delivery as Financial Agent of the Province of Río Negro, signing the Banking and Financial Services Contract of the Province of Río Negro, at a 10-year term with a possible extension for another five years.

The role of provincial financial agent allows to provide diverse services in order to meet the financial and services demands of the different areas of the public sector of the province (administration central, bodies and affiliated companies, as well as municipalities), such as tax collection, pension credited, among other. The function of Financial Agent no includes the obligation to assist financially the province of Río Negro under conditions no compatibles with its character of private bank.

Fee income related to such activity is recorded under “Fee income – Other” in the amounts of 51,396, and 43,675 as of December 31, 2017 and 2016, respectively.

## NOTE 43: <u>Subsequent events</u>

There are no events or transactions occurred between the closing date of fiscal year and the date of emission of the financial statements that may affect significantly the financial situation or the Group profits at the close of the current fiscal year.

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|---|---|---|

**NOTE 44: 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.

| | | |
|---|---|---|
| Marcelo A. Iadarola<br>Executive Manager of Administration | Juan M. Trejo<br>Superintendent<br>Finance, Administration and Public Sector Area | João Carlos de Nóbrega Pecego<br>President |