

NOTES TO THE FINANCIAL STATEMENTS

AT DECEMBER 31, 2016 AND COMPARATIVE PERIODS

(In thousands of pesos)

1. Institutional Nature of the Bank – The Argentine Economic Context and its Impact on the Bank’s Economic and Financial Position – Basis for the Presentation of the Financial Statements

Institutional Nature of the Bank

Banco de la Provincia de Buenos Aires (BPBA or the Bank) is a self-administered public institution, the origin, guaranties and privileges of which are set forth in the Preamble and Sections 31 and 104 of the National Constitution, presently ratified by Sections 31 and 121 of the National Constitution as amended in 1994.

Section 7 of the national union pact dated November 11, 1859 (San José de Flores Treaty) established that the Province of Buenos Aires reserved for itself the exclusive rights, among others, to govern its Provincial State Bank and to pass the necessary laws to that effect.

For that reason, article 4 of the Bank’s Charter – Decree Law No. 9437/79, as amended, provides that the Bank, its assets, acts and doings, contracts and transactions, as well as the rights arising therefrom in its favor, shall be exempted from any liens, taxes, charges or contributions of any nature whatsoever.

The Argentine Economic Context and its Impact on the Bank’s Economic and Financial Position

According to its latest World Economic Outlook (WEO) publication, the International Monetary Fund (IMF) kept its 3.1% global growth estimation for 2016. Projections for 2017 and 2018 remained unchanged (3.4% and 3.6% respectively). However, certain changes were observed in the major economic blocs. The outlook for advanced economies has improved by 0.1 p.p. for 2017 (1.9%) and 0.2 p.p. for 2018 (2%) reflecting stronger activity in the second half of 2016 as well as a projected fiscal stimulus expected in the United States. With respect to emerging and developing markets, 2017 growth prospects worsened by 0.1p.p. (4.5%) while those for 2018 remained unchanged (4.8%) due to less favorable financial conditions globally.

The main developed economies highlight the upward revision in the U.S. growth rate. According to the IMF, Donald Trump’s administration fiscal stimulus would boost economic growth by 2.3% in 2017 and 2.5% in 2018. Growth projections for 2017 have also been revised upward for the Eurozone (1.6%), Germany (1.5%), Spain (2.3%), Japan (0.8%) and the United Kingdom (1.5%). With respect to emerging and developing markets, China is expected to perform more dynamically than in the previous measurement (6.5%). However, the growth forecast for India (7.2%) and the Latin American and the Caribbean zone (1.2%) was trimmed. In the latter case, the decline resulted from lower-than-projected expansions in Brazil (0.2%) and Mexico (1.7%).

The US economic activity rebounded strongly in the second half of 2016 and a 1.6% expansion is expected by year-end. Output remains below potential in a number of other advanced economies, such as in the Euro area (1.7% for 2016). Preliminary third-quarter growth figures were somewhat stronger than previously forecast in some economies such as Spain (3.2%) and the United Kingdom (2%), where domestic demand held up better than expected in the aftermath of the Brexit vote. The picture for emerging market and developing economies (4.1%) remains much more diverse. The growth rate (6.7%) in China was a bit stronger than expected in 2016, supported by a continued stimulus policy. But activity was weaker than expected in some Latin American countries (-0.7%) currently in recession, such as Argentina and Brazil.

External conditions for Argentina are expected to maintain neutral in 2017, though uncertainties still exist. The solid trend of the Brazilian leading manufacturing sectors came to a halt in August last year. So, 2016 closing figures forecast a 3.5% drop in general activity. However, the IMF predicts a 0.2% GDP variation for 2017 that would put an end to the recessionary period that started in 2015. International liquidity would persist as a booming factor though a less flexible monetary policy is expected in the United States so as to face the potential inflationary burden derived from Trump’s stimuli. For 2017, the IMF predicts a 19.9% increase in oil prices and a 2.1% expansion in other raw materials which would entail a drop in terms of trade. Additionally, prospects on the dynamics of global trade became more pessimistic. The IMF predicts a 3.8% growth in trade during 2017. Forecasted figures are still discouraging at a global level and pose several

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downside risks should the new US president's protectionist policies were implemented and subject to the trade relationship to be built after the Brexit referendum.

According to the latest news on GDP, domestic economy could not recover in the third quarter of 2016. However, and in spite of the current recession, the activity slowdown began to yield after four consecutive periods of quarterly contractions and expansion is likely to be promptly recovered.

According to the INDEC (National Statistics Institute) data, the economic activity declined during the third quarter of 2016. According to the released figures, the economic activity fell 0.2% (not seasonally adjusted) in the third quarter of the year as against the previous one, accounting for the lowest decline in the last four quarters. Considering this figure, domestic economy recorded a 3.8% y/y decline in the third quarter, accumulating a 2.4% y/y drop so far this year.

In the third quarter of 2016, demand fell sharply in y/y terms as the result of lower household expenditure and weaker-than-projected investments. The decline in consumers' confidence and the greater uncertainty led to lower household expenditure while the amendments introduced to the fiscal policy helped public consumption resume its growth. The declining pace of investment doubled as the result of lower disbursements in the purchase of capital goods since construction spending reduced its drop rate. The unfavorable performance of external demand had a negative effect on exports.

The major impact of the fall in domestic demand derived from the significant drop in the offer of imported goods after having recorded an unusual increase during the recession suffered in the first half of the year. Such situation was due to the termination of the stock rebuilding process (imported goods) by companies after the release of purchase orders in December 2016.

The decreased production of domestic goods and services was similar to the one recorded in the previous quarter. In terms of segments, the performance was countered with a smaller drop in the production of goods as the result of smaller losses in the agricultural and construction sectors. The provision of services contracted significantly due to the decline in marketing, financial brokerage, corporate and real estate activities.

A different performance was observed in the last quarter of 2016 when improvements were shown in certain indicators. Particularly, the leading global activity indicator improved during the last month but without still confirming the exit from recession. Consumers' confidence and the real growth in the demand for personal loans also performed favorably.

Correction effects are expected to dilute in the future and economy will probably recover in the last months of the year. According to the projections included in the last Market Expectations Survey (REM, for its acronym in Spanish) issued by the BCRA, GDP will end 2016 with a 2.3% shrinkage while economic activity is expected to increase by 3.0% p.a. in 2017.

Inflation continued decreasing. According to different official measurements, December prices showed a decreasing growth rate with a significant deceleration in the second half. However, core inflation kept the pace of the previous months, above monetary authorities' and market's targets, thus showing the defiant nature of price control.

In 2016, inflation ranged between 35% and 41% in different domestic indicators, depending on the delay in updating public utility rates. However, during the first half of the year, inflation stood at 29.2% y/y in the city of Buenos Aires while, during the second half, it was 9.2% as against the same period a year earlier.

Additionally, price expectations recorded a downward adjustment. According to the REM and to the opinion of different analysts, inflation would be just 21% y/y in the coming year. Figures are still well above the goal set by the BCRA, which is facing a transition towards an inflation goal regime which is formally effective since 2017.

As regards Argentine foreign trade, exports grew by 5.5% y/y during the 2016 October-November period mainly boosted by the favorable performance of agricultural products, which accounted for 4.4 p.p. of the evolution recorded in

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such period. Mention should also be made to the recovery in the sale of industrial products (+2.1% y/y) resulting from the improvement recorded in November (the third month in 2016 with an expansion, after almost 3 years of drops). Thus, during the first 11 months of the year, sales totaled US\$53,132 million, slightly below the level attained in the same period of 2015. On the contrary, imports decreased 1.3% y/y in the mentioned two-month period due to the contraction in the main industrial production segments (intermediate/capital goods and spare parts), partially mitigated by the increase in imports of consumer goods. The reduction in the international prices of imported goods also impacted on this figure. The decline in imports is even worse when considering the performance observed in the last 11 months of 2016 when a total of US\$51,812 million (-7.5% y/y) was accumulated. Thus, during the 2016 January-November period, the trade balance recorded an almost US\$2,000 million surplus. Such surplus was largely the result of better terms of trade resulting from the fact that average import prices decreased more than that of exports.

The BCRA decided to maintain LEBAC (35 days) as the monetary policy interest rate (effective until December 31, 2016). As from January 2017, its monetary policy rate changed to that for repo transactions (7 days) between the BCRA and the banks.

The monetary policy showed a looser behavior. The BCRA reduced its monetary policy interest rate by 13.25 p.p. as against early March, reaching to a 24.75% annual rate at November 29. From such date and until the end of 2016, the Central Bank decided to maintain invariable the monetary policy rate so as to consolidate disinflation and move towards the convergence of the 2017 inflationary expectations and the goals timely set.

In this context, the balance of international reserves was US\$38,772 million at the end of December, increasing US\$1,394 million so far the month. Such expansion was mainly associated to the increase of the Minimum Cash accounts of the financial entities and the purchase of US dollars by the BCRA to private individuals on account of the tax amnesty payment. It is worth mentioning that, during December, the BCRA allocated US\$1,010 million to the settlement of repo transactions entered into with two international banks in late July.

During December, the monetary base showed a 26.6% y/y variation, -1.8 p.p. as against the previous month. The primary expansion was associated to the placement of LEBACs (US\$84,209 million) and the purchases of foreign currency between the Central Bank and the private sector and by the National Treasury, which grew US\$11,174 million and US\$6,209 million, respectively.

Total private deposits (\$ + US\$) went up 19.6% y/y during the quarter, accounting for a 11.3 p.p. increase over the previous one. Such performance was due to the significant increase (74.8%) in foreign currency placements as measured in domestic currency (mainly as the result of the tax amnesty and, to a lesser extent, to the placement of US dollars in banks for tax purposes). The 8.8% increase in peso denominated deposits also impacted on such performance. Loans in pesos to the private sector improved by 9.5% in the last quarter of the year. This behavior resulted from the better performance of pledge loans (14.2%), credit card payments (12.8%) and consumer loans (12.1%), which grew over the quarter average. Loans in dollars to the private sector rose 22.2% mainly due to the performance of unsecured documents related to foreign trade.

1.a. Position of the Bank

The Bank has a considerable exposure to the Argentine public sector, through rights, government bonds, loans and other assets, recorded in the Financial Statements and Annexes for approximately \$28,958,493 and \$30,000,211 at December 31, 2016 and 2015, respectively. Such exposure results mainly from debt restructuring by the Argentine Government, compensation for the effects of devaluation and asymmetric conversion into pesos, financial assistance to the Government of the Province of Buenos Aires, as stated in Articles 9(B) of the Bank's Charter and other facilities granted. Likewise, the Bank's investments in securities issued by the BCRA amount to \$35,625,966 and \$8,893,986 at December 31, 2016 and 2015, respectively.

Through Executive Orders Nos. 1620, 2094 and 2190 dated December 28, 2012, Nos. 1679 and 1680 dated December 30,

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2013 and Nos. 1784 of December 30, 2014, the Provincial Executive Branch provided for the issuance of bonds for the settlement of advances of pension contributions to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel (Caja de Jubilaciones, Subsidios y Pensiones del Personal del Banco de la Provincia de Buenos Aires) and the consolidation of the debt between the Province and the Bank. At the date hereof, such bonds were not issued.

Finally, Executive Order No. 2100 dated December 30, 2014 provided for the issuance of the above mentioned bonds in order to settle the advances. Moreover, on December 1, 2015, the Executive Order No. 1954 approved the issuance of bonds for the partial settlement of advances of pension contributions to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel arisen during 2014. At the date hereof, the mentioned Bonds were not issued since the National Ministry of Economy's approval is still pending. (See Note 20.3).

The future evolution of the provincial and national economies and the honoring of obligations are of significant importance to the financial condition of the Bank.

In addition, as mentioned in Note 16 to these Financial Statements, at December 31, 2013, the Bank did not comply with all the commitments undertaken through Resolution No. 92/11. Therefore, on December 18, 2014, and August 4, 2015, the Bank submitted to the BCRA a Compliance Schedule for the 2015-2018 period aimed at achieving self-capitalization through the generation of earnings and its inclusion in the prudential regulations in force. The maintenance of the exemptions contemplated in Resolution No. 92/11 and additional exemptions were also requested.

The Bank continued developing commercial actions to maintain its competitiveness within the market and comply with its role as a state-owned bank. To that effect, it not only granted financing in accordance with section 24 s) of its Charter - which stipulates that the Board of Directors shall be authorized to grant loans to artificial persons from the private sector for an amount not exceeding \$50,000, or five per cent (5%) of the Bank's Net Worth, and loans to natural persons for up to \$ 10,000, but also offered a wide range of lending alternatives under favorable terms so as to foster investment, production and employment, particularly in small and medium enterprises, and other various facilities for the acquisition of durable consumer goods and personal spending.

Finally, the Bank is directing its efforts towards several projects with direct impact on its activity, the consolidation of its IT systems and updating of the technological resources in line with innovation.

1.b. BCRA Reporting Systems

On December 18, 2014, the Bank submitted to the BCRA a Compliance Schedule for the four-year period 2015-2018 (See Note 16).

Communication "A" 4093 set the maximum limit for the Immobilized Assets ratio at 100% of the Bank's Adjusted Net Worth. The Bank complies with the regulation in force at the individual and consolidated levels and duly submitted the pertinent information at December 2016.

On November 20, 2015, the BCRA issued Communication "A" 5834 establishing that the limit of the Net Overall Position for the November 2015 presentation should be 15%. Likewise, such regulation, effective November 30, 2015, provided that the daily position limit should be 10% of the Adjusted Net Worth. The Bank has submitted the pertinent information at January 8, 2016 to the BCRA.

On December 17, 2015, the BCRA issued Communication "A" 5852 establishing that financial institutions should sell their positive Position in Foreign Currency, effective upon the closing of transactions on December 16, 2015 and valued at the reference exchange rate of such date. On December 22, 2015, the Bank carried out the pertinent repurchase. Such transaction recorded a negative result of \$220,732.

On January 8, 2016, Communication "A" 5879 changed the monthly average daily balances calculation method.

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At this date, the Bank has submitted the information and complied with the requirements therein stipulated.

On June 23, 2016, the BCRA issued Communication "A" 5997, establishing that, as of July 1, 2016, the limit of the Net Overall Position in Foreign Currency -in monthly average daily balances converted into pesos at the reference exchange rate- shall not exceed 15% of the lesser of the Adjusted Net Worth or its own liquid assets for the pertinent previous month.

Communication "A" 6088 issued on October 27, 2016 and effective for 7 months till May 31, 2017 inclusive, does not introduce changes in the weighting indicators for calculating the maximum limit for the General Exchange Position, which shall not exceed 15% of the equivalent amount in US dollars of the Adjusted Net Worth at the end of the month next preceding the last month in which the presentation to the BCRA shall have expired. However, with regard to Financial Institutions, it does introduce changes so as to include deposits made under Law No. 27260 - Tax Amnesty Regime (item 4 of Communication "A" 4646, amended by Communication "A" 4814).

The maximum limit of the General Exchange Position will be increased by an amount equivalent in US dollars to 5% of the institution's total foreign currency purchase and sale transactions with customers during the calendar month immediately preceding the previous month; by 2% of all domestic demand and term deposits in foreign currency, excluding escrow deposits and deposits made under Law No. 27260 - Tax Amnesty Regime - recorded by the bank at the end of the calendar month immediately preceding the previous month; and by the equivalent amount in US dollars of the daily deposits made in foreign currency under Law 27260 - Tax Amnesty Regime - net of foreign currency bills sent as a result of exchange and currency arbitrage and currency proceedings according to Communication "A" 3661, as supplemented, since October 1, 2016.

In case the maximum limit set in accordance with the provisions of the preceding paragraphs were lower than US\$8,000 plus the daily equivalent amount in dollars resulting from the deposits in foreign currency made under Law No. 27260 - Tax Amnesty Regime - net of foreign currency bills sent as a result of exchange and currency arbitrage proceedings according to Communication "A" 3661, as supplemented, since October 1, 2016, the amount resulting from adding up the last two amounts shall be considered the minimum limit of the maximum amount set by the mentioned rule.

Communication "A" 4546 of the BCRA provided that, effective July 1, 2007, the average overall monthly assistance to the national, provincial and municipal non-financial public sector, except for transactions with the Central Bank, shall not exceed 35% of total assets as of the last day of the preceding month. Whenever such limit is exceeded, 100% of the excess shall imply an equal increase in the Minimum Capital Requirement for Credit Risk. Likewise, limits were set for assistance to the municipal and provincial public sector. The Bank's records show excesses in these limits.

By Resolution No. 92/11, the BCRA decided to accept that said limit were not applied to certain financial assistances. The Bank requested to maintain said exemptions and other additional ones. (See Note 16).

At the date of these financial statements, the BCRA made no comments on the above requests.

According to the provisions of Communication "A" 5154 of the BCRA, financial institutions may not refinance nor grant financial assistance to the Non Financial Public Sector, except that they were allocated to Trust or Trust Funds created for specific purposes, or those expressly authorized by the BCRA.

Additionally, the Bank also shows excesses in the limits imposed by the current regulations of the BCRA on the diversification of the credit risk involving the non-financial public sector. Such excess amounts result in a higher minimum capital requirement. As mentioned above, by Resolution No. 92/11, the BCRA decided to accept for minimum capital requirement purposes, any shortfalls recorded until the earlier of December 2013 or the date of final compliance. The Bank requested to maintain said exemptions and other additional ones. With respect to the private sector, the Bank has not exceeded these limits. (See Note 16).

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On January 8, 2015, the BCRA issued Communication "A" 5694 informing financial institutions that it decided to add, as of January 1, 2016, an additional minimum capital requirement equivalent to 1% of risk weighted assets, which shall be required to financial institutions deemed as "Domestic Systemically Important Banks" by the BCRA. In order to comply with such requirement, a gradual implementation schedule has been designed as from the first quarter of 2016, at a 7.5% rate, increasing up to 100% by January, 2019. At the date of issuance of these Financial Statements, the BCRA has not issued the list of Domestic Systemically Important Banks and the Bank has not been notified on this matter.

As regards the minimum capital reporting system, the BCRA issued Communication "A" 5831 dated November 18, 2015, establishing that for calculating the stand-alone and consolidated monthly figures at December 2015, the pertinent items shall be computed taking into account the daily balances at the last day of each month. The monthly average daily balances shall be disclosed as supplementary information.

Likewise, such Communication provided for the deduction of investments in instruments computed as regulatory capital of companies rendering services supplementary to the financial activity not subject to consolidated supervision and insurance companies. Deductions shall be applied according to the following schedule: 40 % from December 2015 to December 2016; 70% from January 2017 and 100% from January 2018.

On December 30, 2015, BCRA's Communication "A" 5867 introduced amendments to the rules on Minimum Capital Requirements and Guidelines on Risk Management, effective March 1, 2016. Such communication modified the calculation of minimum capital requirements for market risk. In the case of the rules on "Guidelines on Risk Management for financial institutions", it amended the definitions of Trading Portfolio and Investment Portfolio.

On July 1, 2016, the BCRA issued Communication "A" 6004 adding a new paragraph related to the "External Credit Assessment Institutions" (ECAIs). It provides that credit assessments made by external credit assessment institutions shall only be used for the determination of the risk exposure indicator when the involved ECAI has been previously recognized as eligible for those purposes by the BCRA. At the date of these financial statements, no ECAI listing was issued by the BCRA; therefore, the indicator for governments, central banks and financial institutions is 100%.

From the effective date of such Communication to August 31, 2016, the institutions had to compute, on an off balance sheet basis, the requirement for market risk according to the methodology prevailing at the date of issuance of such communication and consider the higher Capital Requirement for Market Risk for the purpose of determining the Minimum Capital Requirements.

Under the terms of Article 9, Paragraph B of the Bank's Charter - Decree Law No. 9437/79, at December 31, 2016 and 2015, the Bank granted financing to the Provincial Government for a total amount of \$3,941,770. At the date of issuance of these Financial Statements, the Bank granted no new financial assistance to the Provincial Government under these terms. Accrued interest receivable for the above-mentioned assistance totaled \$2,963,466 and \$1,912,791 at December 31, 2016 and 2015, respectively.

Additionally, at December 31, 2016 and 2015, the Bank recorded receivables on account of advances of pension contributions to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel for \$7,468,923 and \$3,407,594 respectively. (See Note 20.2).

As of December 31, 2016 and 2015, the Bank recorded receivables on account of collections in kind for consolidation of debts with the Province of Buenos Aires and advances of pension contributions to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel for \$7,464,152. (See Note 20.3).

At December 31, 2015, the Bank granted financing to the Provincial Government for \$4,022,369, recorded in Loans to the non-financial public sector plus accrued interest receivable for \$118,494. Such amounts derived from an excess in the use of balances corresponding to the Unified Fund of Official Accounts system. At

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the date of issuance of these Financial Statements, this credit facility was settled and the accrued interest receivable amounted to \$ 5,786.

Likewise, at December 31, 2016 and 2015, the Bank granted other financial facilities for \$787,481 and \$658,642, respectively.

2. Basis for Presentation of the Financial Statements

Application of Accounting Standards

Banco de la Provincia de Buenos Aires follows the Accounting Standards issued by the Argentine Central Bank. Likewise, as an institution of the Province of Buenos Aires, the Bank is subject to audits by the General Accounting Office and the Auditing Office of the Province of Buenos Aires for budgetary performance purposes.

The figures shown in the Financial Statements derived from books of accounts that were signed by the General Accounting Office of the Province of Buenos Aires, which have been kept in accordance with usual procedures.

The Financial Statements are in agreement with the disclosure policies established by the BCRA and Technical Resolution No. 8 issued by the Argentine Federation of Professional Councils in Economic Sciences (Federación Argentina de Consejos Profesionales en Ciencias Económicas - FACPCE).

The Financial Statements include the account balances corresponding to the transactions carried out by the Bank in Argentina and in its branches abroad. They have been prepared pursuant to the standards of the Argentine Central Bank and include the assets, liabilities and results of operations of the Bank's overseas branches derived from their Financial Statements, as especially adjusted following the valuation and disclosure criteria set by the BCRA and the Professional Accounting Standards.

The following procedures were applied to translate the Financial Statements of overseas branches into pesos:

- Assets and Liabilities were converted into pesos using the BCRA reference exchange rate for foreign currency transfers, effective at the end of each period/fiscal year.
- The allotted capital was calculated on the basis of the amounts actually disbursed, as restated according to changes in the currency purchasing power until August 31, 1995, when adjustments for inflation were discontinued. Subsequent allocations originating in the stability period were expressed in the currency effective at December 31, 2001 and their balances were restated at February 28, 2003.
- The Retained Earnings were determined as the difference between Assets, Liabilities and allotted Capital, restated at 02.28.03.
- Net Income for the period/fiscal year was determined as the difference between retained earnings at the beginning of the period, as restated, and retained earnings at closing.
- Items arising from transactions between domestic and foreign branches not involving third parties were removed from the Balance Sheet and the Statement of Income.
- Exchange differences arising from currency translation were allocated to "Financial Income – Other" or "Financial Expenditure – Other" captions in the Statement of Income, as appropriate.

According to National Executive Order No. 664/03 and BCRA Communication "A" 3921 dated April 8, 2003, the Bank decided to discontinue the restatement of accounting information in uniform currency; therefore, the accounts did not reflect the effects of changes in currency purchasing power dating from March 1, 2003.

Argentine professional accounting standards establish that financial statements shall be prepared recognizing changes in currency purchasing power according to the provisions of Technical Resolutions (TR) No. 6 and No. 17, as amended by TR No. 39 and by Interpretation No. 8. These standards were issued by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE). N° 6 y N° 17. They state that the adjustment for inflation shall be applied upon the existence

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of an inflationary context characterized, among other features, by a three-year accumulated inflation rate, reaching or exceeding 100%, by application of the General Wholesale Domestic Price Index published by the National Institute of Statistics and Census (Instituto Nacional de Estadística y Censos - INDEC). Upon reaching such rate, the pertinent financial statements shall be restated as from the date the adjustment was discontinued.

At December 31, 2016, it was not possible to calculate the accumulated inflation rate for the three-month period ended on such date on the basis of the INDEC official data since in October 2015, such institute had interrupted the calculation of the Wholesale Domestic Price Index and resumed it in January 2016.

At year-end, within the framework of official expectations on the decrease of the inflationary rate, the Board of Directors concluded that an inflationary context could not be determined in line with the guidelines set by the Argentine professional accounting rules. Therefore, these financial statements were not restated in constant currency.

However, in the last few years, some macroeconomic variables that affect the Bank's activity, such as wage cost and input prices, have registered somewhat significant annual variations. This circumstance must be considered when evaluating and analyzing the financial situation and results presented by the Bank in these Financial Statements.

At the date hereof, the Argentine Central Bank issued no regulations in relation to the above-mentioned paragraph.

Valuation Criteria

The main valuation and restatement criteria that were followed for the preparation of these Financial Statements are described below:

2.1. Statement of Cash Flows

The criterion for the preparation of this Statement identifies the "Cash and Due from Banks" caption as cash and cash equivalents.

2.2. Valuation of Assets and Liabilities in Foreign Currency

At December 31, 2016 and 2015, Assets and Liabilities denominated in US dollars were valued at the BCRA reference exchange rate for US dollars, prevailing at the close of business on the last business day of the year (\$15.8502 and \$13.005, respectively). Likewise, Assets and Liabilities denominated in other foreign currencies were converted at the rates informed by the foreign exchange department of the Argentine Central Bank. Any exchange differences were charged to the income/(loss) of each period/fiscal year.

Foreign exchange regulations in force at November 02, 2016 are set forth in BCRA's Communiqué No. 50816.

2.3. Valuation of Government and Corporate Securities.

At December 31, 2016 and 2015, they were valued in conformity with the provisions on "Valuation of non-financial public sector debt instruments and BCRA monetary regulation instruments" established in Communication "A" 5180.

a. Securities booked at fair market value

They are recorded at their market or present value, as appropriate. These securities have been valued at the market price prevailing on the Buenos Aires Stock Exchange or other pertinent foreign stock exchanges on the last business day of the period.

At December 31, 2016 and 2015, the Bank also recorded the Discount Bonds received in exchange for defaulted public

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debt securities (Executive Order No. 1735/04) valued at NV\$10,404.

Holdings recorded at cost plus yield

They are valued at their acquisition cost, increased on a monthly basis by the internal rate of return, according to the applicable accrual criterion, except for:

Guaranteed Bonds under Executive Order No. 1579/02 – Bogar 2018 (NV\$5,089 million) measured at their technical value until final amortization, pursuant to Resolution No. 92/11 issued by the BCRA, as mentioned in Note 2.18. (See also Note 16.)

2.4. Interest Accrual and Adjustments Methods

Interest accruals have been mainly calculated on an exponential basis for both Loans and Deposits. The straight-line method has been used for interest accruals on Foreign Trade Transactions and transactions carried out by Foreign Branches.

As provided for by Executive Order No. 214/02, as supplemented, and the corresponding Resolutions issued by the BCRA, certain Assets and Liabilities originally denominated in foreign currency were adjusted by the CER Index.

2.5. Securities to Be Received and Delivered under Spot and Forward Transactions

As stated in Note 2.18, securities to be received are recorded at their technical value while securities to be delivered are valued at the pertinent market quotation prevailing at the closing date of each period/fiscal year.

2.6. Amounts to Be Collected and Paid under Spot and Forward Transactions

They were valued according to the prices agreed upon for each transaction, plus the relevant premiums accrued at the closing of each period/fiscal year.

2.7. Valuation of Assets under Financial Leases

They were measured at the discount value of aggregate minimum lease installments and any non-secured residual value.

2.8. Valuation of Interests in Other Companies

They have been valued as follows:

Unlisted Controlled Companies:

- In pesos: At their equity value, according to the Financial Statements at Saturday, December 31, 2016, taking into account the pertinent adjustments and eliminations as detailed in Note 2.g to the Consolidated Financial Statements.

Unlisted Non-Controlled Companies:

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- In pesos: At their acquisition cost, restated at August 31, 1995 and then, as stated in Note 2.1, from January 1, 2002 until February 28, 2003; interests included subsequent to that date, at their acquisition cost not restated for inflation and not in excess of the lower of their equity value and their known realizable value.
- In foreign currency: At their original cost in foreign currency translated into pesos according to the procedure mentioned in paragraph 2.2. above and not in excess of the lower of their equity value or known realizable value.

2.9. Valuation of Bank Premises and Equipment and Miscellaneous Assets, including methods used for the calculation of depreciation

Assets corresponding to branches located in Argentina have been valued at their acquisition cost plus the highest value for technical revaluations during previous years, restated in constant currency at February 28, 2003, as mentioned in Note 2 “Application of Accounting Standards”, less the applicable accumulated depreciation. Furthermore, assets of branches located abroad have been mainly valued at their acquisition cost in foreign currency, net of the applicable accumulated depreciation, translated at the exchange rates in effect at the end of each period/fiscal year.

Depreciation of these assets is calculated on the basis of their useful life expressed in months, recognizing full-month depreciation in the first month of ownership.

The net residual values of these assets, taken as a whole, do not exceed their use value.

2.10. Valuation of Other Miscellaneous Assets

Investments in works in progress and advances for the purchase of assets, including imports not cleared through customs and investments in works of art, have been valued at their acquisition cost, restated for inflation according to Note 2 “Application of Accounting Standards”.

Their net book values do not exceed the corresponding use values.

2.11. Valuation of Intangible Assets

Intangible Assets have been valued at their acquisition cost, restated for inflation, less the applicable accumulated depreciation.

This caption includes Organization and Development Expenses of the Head Office in Argentina and the Sao Paulo and Montevideo Branches.

It also includes differences arising from compliance with judicial resolutions, which were recorded by the Bank pursuant to the provisions of Communications “A” 3916 and 4439 of the Argentine Central Bank as mentioned in Note 20.8.

Amortization charges are computed under the straight-line method over a maximum 60-month term as of the month of acquisition.

2.12. Valuation of Loans, Other Receivables, Deposits and Other Government Security Debts

They have been valued at the pertinent market price of the securities lent or received in deposit prevailing on the Buenos Aires Stock Exchange and other foreign stock exchanges on the last business day of the period/fiscal year, except for forward purchases/sales for Repo/Reverse Repo transactions carried out with unlisted Government Securities and

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instruments issued by the BCRA, which have been valued pursuant to Notes 2.3 and 2.18.

2.13. Accounting Treatment of Assets Purchased under Financial Leases

At December 31, 2016 and 2015, the Bank has no third-party lease contracts under which the purchase option has been exercised.

2.14. Allowance for Uncollectibility Risk and Provision for Contingent Liabilities

They have been set up on the basis of the estimated uncollectibility risk of the Bank’s credit assistance taking mainly into account the analysis of the debtors’ future repayment capacity, through the assessment of their degree of compliance, economic and financial condition and the guarantees supporting the pertinent transactions according to the provisions set forth by the BCRA.

2.15. Provisions for Other Contingencies

They include the estimated amount held by the Bank to meet probable risks, such as settlement of pending labor and commercial lawsuits, credit card users’ uncollectibility, claims for rescheduled deposits, illicit activities against the Bank and other possible contingencies for \$767,625.

Pursuant to Communication “A” 4686 issued by the BCRA on July 4, 2007, the Bank has set up provisions for any difference between the equivalent value in pesos of court-ordered deposits originally in foreign currency and the book value of these foreign currency deposits that, on January 5, 2002, fell within the provisions of Law No. 25561 and Executive Order No. 214/02. At December 31, 2016 and 2015, such provisions amounted to \$31,100 and \$34,891, respectively.

2.16. Income Tax

By virtue of the Bank’s institutional nature, Article 4 of its Charter –Executive Order No. 9434/79, as amended, provides that the Bank, its assets, acts and doings, agreements, contracts and transactions as well as all rights arising therefrom in the Bank’s favor, are exempt from any liens, taxes, charges or duties of any nature whatsoever, by which reason no provision is required for income tax on transactions conducted by the Bank’s Home Office and local branches.

2.17. Severance Pay

Severance payments are charged against net income/(loss) in the month when the dismissal occurs.

2.18. Secured Loans and Guaranteed Bonds - Executive Orders Nos. 1387/01 and 1579/02

National Exchange

As a result of the Exchange of National Public Debt Securities for new financing instruments called “Secured Loans” (Executive Order No. 1387/01), the Bank holds \$604,341 and \$710,744 under the “Loans” caption at December 31, 2016 and 2015. They account for the Secured Loans received in exchange for its own holdings from the repayment of loans valued at the lower of their Technical Value or their Present Value, according to Communication “A” 3911, as amended.

Such “Secured Loans” were recorded at the Technical Value of the securities delivered, i.e. US\$243,414 (which value is in accordance with the terms and conditions of issuance plus interest accrued at November 6, 2001). As required by the BCRA, the positive difference between this value and the book value is recorded in a Secured Loans contra-asset account as unrealized valuation difference, and is monthly charged to income/(loss) according to the term of the loans.

The Professional Accounting Standards would have required Secured Loans to be included in the Bank’s Assets at the

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market price of the exchanged Government Securities. At the exchange date, such market price amounted to approximately US\$107,241.

In its Communication "A" 4898, the BCRA set forth the guidelines for a new securities exchange designed to ease the government's financial burden in the short term. Under this exchange, bonds may be valued using another methodology to alleviate the potential impact of the financial crisis on the balance sheets of financial institutions. On January 23, 2009, the Bank exchanged Global 2008 Secured Loans at fixed rate for ONV US\$143,755.

Provincial Exchange and Compensation according to Sections 28 and 29 of National Executive Order No. 905/02 28 y 29 del Decreto 905/2002 del P.E.N.

The Bank has submitted provincial government securities and other provincial receivables to be exchanged as provided for by Executive Orders Nos. 1387/01 and 1579/02. Under the latter Executive Order, the Exchange would be implemented through Guaranteed Bonds 2018 issued by the Trust Fund for Provincial Development, secured by part of the funds corresponding to the Provinces from the Federal Revenue Sharing of Taxes and, subsidiarily, by the National Government through the automatic allocation of resources derived from the Tax on Debits and Credits in Bank Checking Accounts and from the federal share in the secondary distribution of shared taxes.

At December 31, 2016 and 2015, the Guaranteed Bonds 2018 are informed under the "Government Securities at Cost plus Yield", "Other Receivables from Financial Brokerage – Other Receivables not included in the Debtor's Classification Rules" and "Miscellaneous Receivables" captions for \$4,881,432 and \$6,648,920, respectively.

Taking into account the exemption granted by the BCRA through Resolution No. 92/11 and assuming that it remains in force in 2016, the Bank maintained Guaranteed Bonds under Executive Order No. 1579/02 - Bogar 2018 (NV\$5,089 million) at their technical value until final amortization under the "Memorandum Debit Accounts – Contingent" caption and under the "Memorandum Credit Accounts – Contingent" caption the creation and refund of the Fund for Maintaining the Value of Guaranteed Bonds issued by the Trust Fund for Provincial Development till December 2016, effective date of Laws Nos. 13225 and 13238.

At December 31, 2016 and 2015, the book value of assets resulting from the compensation received according to Sections 28 and 29 of the National Executive Order No. 905/02 amounted to \$130,456 and \$177,142, respectively.

At December 31, 2016 and 2015, the total number of Guaranteed Bonds 2018 was valued at \$4,570,071 and \$6,559,849, respectively.

2.19 Accounting Estimates

The preparation of the financial statements in accordance with the BCRA's accounting standards requires the Bank's Board of Directors and General Management to make estimates affecting the determination of assets and liabilities and disclosure contingencies at the date of presentation of the financial statements, as well as income and expenditures in each period/fiscal year. Future income/loss may differ from estimates made at the date of preparation of these financial statements.

2.20 Valuation of receivables on account of Advances made to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel and Bonds to be received from the Province of Buenos Aires (Note 20.3)

They were valued at the lower of the best estimate of the amounts receivable discounted at the market rate reflecting the market calculation of the time value of money and the specific risks of such assets at valuation date, or the funds originally disbursed.

3. Differences between Professional Accounting Standards and the Accounting Standards Set by the Argentine

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Central Bank

The Professional Council in Economic Sciences of the Province of Buenos Aires (Consejo Profesional de Ciencias Económicas de la Provincia de Buenos Aires) approved Technical Resolutions Nos. 16 through 44, which are in force at the date of issuance of these Financial Statements.

Moreover, the Central Bank has not yet adopted all the above standards. Therefore, the Bank has prepared these Financial Statements without considering the valuation and disclosure criteria included in the Professional Accounting Standards in force in the Province of Buenos Aires.

There follows a detail of the main differences between the current Professional Accounting Standards and the standards set by the Argentine Central Bank:

3.1 Non-Financial Public Sector - Allowances

The current regulations on allowances issued by the BCRA establish that receivables from the Public Sector are not subject to allowances for uncollectibility risks. Pursuant to the Professional Accounting Standards, such allowances must be estimated according to the recoverability risk of assets.

The Bank has not quantified the effects of the application of current Professional Accounting Standards on the valuation of such transactions.

3.2 Valuation of Assets with the Non-Financial Public Sector

3.2.1 Secured Loans and Guaranteed Bonds:

As stated in Note 2.18, during the fiscal year ended December 31, 2001, the Bank exchanged National Government Securities, Provincial Government Securities and Provincial Loans with the National Government for a nominal value of US\$4,302,344, the book value of which amounted to \$4,201,349 at November 6, 2001, and received Secured Loans in exchange for the National Government Securities and Guaranteed Bonds 2018 in exchange for the Provincial Government Securities and Provincial Loans.

At December 31, 2016 and 2015, the above assets have been valued at the exchange value set by the Ministry of Economy at November 6, 2001, plus the corresponding accrued interest until the end of the period, converted into pesos at the exchange rate of \$1.40 and updated by the CER index, net of the adjustment accounts' balance. (See Note 2.18).

According to the Professional Accounting Standards, a change in the original terms of the Loans would imply a replacement of instruments; the new Assets should then be booked on the basis of the best estimate of the amounts receivable, as discounted at the market rate in force when making the initial appraisal.

The Bank was unable to quantify the effects of the application of current Professional Accounting Standards on the valuation of such transactions.

3.2.2 Compensation according to Sections 28 and 29 of National Executive Order No. 905/2002 and Provincial Exchange:

At December 31, 2016 and 2015, the Bank recorded at their technical value under the "Government Securities at Cost plus Yield" , "Other Receivables from Financial Brokerage - Other Receivables not included in the Debtors' Classification Rules" and "Miscellaneous Receivables" captions, the Government Securities received (Bogar 2018) on account of the compensation established in sections 28 and 29 of the National Executive Order No. 905/2002 and in the Provincial Exchange provided by Executive Order Nos. 1387/01 and 1579/02. (As stated in Note 20.6).

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In accordance with current Professional Accounting Standards, the above assets must be measured at their market value.

At December 31, 2016 and 2015, the book value of assets resulting from the compensation received according to sections 28 and 29 of the National Executive Order No. 905/02 amounts to \$130,456 and \$177,142, respectively. If valued at their market quotation on the same date, they amount to \$122,135 and \$174,769, respectively.

Moreover, the book value of the securities resulting from the Provincial Exchange at Saturday, December 31, 2016 and 2015 (valued at their technical value as detailed in Note 2.18) amounted to \$4,750,977 and \$6,471,777 respectively. If valued at their market quotation on the same date, they totaled to \$4,447,936 and \$6,385,079, respectively.

3.3 Payments ordered by injunctions

As stated in Note 20.8, the Bank recorded under the "Intangible Assets" caption \$55,835 and \$54,033 at December 31, 2016 and 2015, respectively, on account of exchange differences resulting from compliance with Communications "A" 3916 and "A" 4439 of the BCRA. "A" 3916 y "A" 4439 del B.C.R.A. Since the professional accounting standards' valuation and disclosure criteria require reducing the book value of any excess amounts paid by the Bank to their recoverable value, such registration is not applicable.

3.4 Accounting for Instruments issued by the BCRA and other Government Securities at Cost plus Yield

At December 31, 2016, Bills issued by the BCRA and other Government Securities were valued at cost using the effective interest method (based on their internal rate of return) in accordance with Communication "A" 5180 for \$25,139,551. This accounting policy differs from current Professional Accounting Standards, which require the measurement of such instruments at their net realizable value. Should this method have been applied to listed instruments, their value would have amounted to \$25,113,626. At the date of these Financial Statements, dollar-denominated Treasury Bills valued at cost plus yield were recorded by the Bank at a book value of \$15,677. Their net realizable value was calculated in the same manner as the BCRA Bills in US\$, totaling \$15,441.

3.5 Accounting for Derivative Financial Instruments

At December 31, 2016, the Bank holds Forward Transactions with delivery of the underlying asset, which are valued according to BCRA's regulations, as described in Note 14. This accounting policy differs from the current Professional Accounting Standards. Pursuant to such standards, derivative transactions are classified into speculative or hedge transactions; if unlisted, they are valued at their estimated market value.

3.6 Conversion of Financial Statements

The conversion into pesos of the Financial Statements of Overseas Branches for their consolidation with the Bank's Financial Statements differs from the Professional Accounting Standards in force (Technical Resolution No. 18), which require that: (a) the amounts that in the Financial Statements to be converted are stated in year-end foreign currency (current values, recoverable values) shall be converted at the exchange rate prevailing on the date of the Financial Statements; and (b) the amounts that in the Financial Statements to be converted are stated in foreign currency at a date prior to the closing date (for example, those representing historical costs, income, expenditures) shall be converted at the pertinent historical rates of exchange, restated in year-end currency, when so required by the provisions of Technical Resolution No. 17. Exchange differences arising from the conversion of Financial Statements shall be considered as financial income or financial costs, as applicable.

The use of this criterion in lieu of that mentioned in Note 2 does not significantly affect the disclosure of the Bank's Financial Statements.

3.7 Penalties and Administrative Proceedings imposed on Financial Institutions

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By Communication "A" 5689, the BCRA states that since January 2015, financial institutions shall set up provisions for 100% of their administrative and/or disciplinary penalties, as well as the sentences imposed by criminal trial courts, enforced or brought by the Argentine Central Bank, the Financial Information Unit (*Unidad de Información Financiera*), the National Securities Commission (*Comisión Nacional de Valores - CNV*) and the National Insurance Superintendency (*Superintendencia de Seguros de la Nación - SSN*), served upon the financial institution, regardless their significance, even when judicial or administrative measures suspending payment have been entered into, and whatever the status of the case may be. Likewise, it provides that financial institutions shall inform such measures in notes to the Financial Statements, whether quantified or not, as well as the summary proceedings brought by the BCRA as from the moment in which the opening of such proceedings has been served upon the institution.

Pursuant to the Professional Accounting Standards currently in force in the Province of Buenos Aires, such contingencies shall be recognized as liabilities when a high occurrence probability exists and they may be properly quantified in currency, which shall also be informed in the notes to the Financial Statements. When the occurrence probability of contingences is deemed unlikely, they shall not be informed in the Financial Statements or the notes; but when it is deemed likely but the contingences do not comply with the requirements to be recognized as liabilities, they shall only be informed in the notes to the Financial Statements. (See Note 20.10).

3.8 Personnel Benefits

Benefits paid to personnel (unused vacations, wages on account of termination of employment and other compensations) are allocated to the Bank's expenses as employees make use of those benefits according to the BCRA accounting guidelines, while the Professional Accounting Standards in force state that those benefits granted as employees render services shall be acknowledged as a liability during the labor relationship period. At December 31, 2016, if the current Professional Accounting Standards had been applied in such valuation, \$2,853,370 would have been recorded in Liabilities.

3.9 Accounting for Income Tax through the application of the Deferred Tax Method

According to Note 2.16, the Bank is exempted from any liens, taxes, charges or duties of any nature whatsoever. Nevertheless, Controlled Companies have recognized Income Tax charge by the Deferred Tax Method. This method is not admitted by the BCRA Accounting Standards.

Pursuant to the current Professional Accounting Standards of the Province of Buenos Aires, the Income Tax charge must be recognized using such method. Therefore, the pertinent assets and liabilities must be calculated considering the applicable temporary differences.

Tax losses and unused tax credits deductible from future taxable profits, if probable, should be recognized as deferred assets.

4. Changes in Valuation Criteria with respect to those Applied during the Previous Period

At December 31, 2016 and comparative periods, no amendments were made to the valuation criteria applied in previous year, except for those mentioned in these notes.

5. Prior Year Adjustment

The Financial Statements at December 31, 2016 include negative adjustments to the "Prior Year Adjustments" caption for \$125,702 derived from the correction of certain processing errors and the recording of the cumulative effect at the beginning of the year for changes in accounting methods (accrual of administrative expenses) so as to standardize the net worth valuation criteria used at the beginning and end of the year.

6. Restricted Assets

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The Bank holds the following Restricted Assets:

Assets	Caption	Original Nominal Value		Pesos		Item
		12/31/2016	12/31/2015	12/31/2016	12/31/2015	
National Treasury Bills and Financial Treasury Bills	Sao Paulo Branch	7,200	3,522	296,097	82,852	Collateral for transactions with BM&F, exchange clearing house and other collateral.
Guaranteed Bonds	Other Receivables from Financial Brokerage	560	500	537	651	Collateral for transactions with the BCRA through the MAE and ROFEX

Assets	Caption	Original Nominal Value		Pesos		Item
		12/31/2016	12/31/2015	12/31/2016	12/31/2015	
Guaranteed Bonds	Government Securities	200,000	342,881	191,836	446,585	Collateral for transactions with the BCRA under the Bicentennial Project
Cash	Other Receivables from Financial Brokerage	-	-	2,943,441	1,469,266	"BCRA - Special Escrow Accounts"
Credit Card Guarantee Funds	Miscellaneous Receivables	-	-	416,923	325,362	Guarantee Funds VISA and Mastercard System

7. Contingencies

On October 11, 2002, the Users and Consumers Union (*Unión de Usuarios y Consumidores*) filed a summary complaint with the National Court of First Instance in Commercial Matters No. 18, Clerk's Office No. 35, requesting the suspension of the monthly charge for insurance to cover robbery of money at ATMs when account holders withdraw cash from an ATM –either from savings or checking accounts or Bapro Electron cards–, the reimbursement of all amounts so debited and the rendering of such service free of charge.

The lower court decision was passed on September 8, 2004 and ordered the Bank to pay back the amounts debited, plus interest, to those account holders who had not expressly requested, taken out or accepted such insurance, with costs charged to the Bank, but dismissed the request for the provision of such service free of charge.

After several appeals, the plaintiff requested the execution of judgment. On September 26, 2013, the Bank was compelled to refund \$28,623 to customers still holding accounts with the Bank. With respect to former customers, the Court of Appeals had ordered that an amount of \$30,391 be transferred to the National Bureau of Consumer Protection (*Defensa del Consumidor de la Nación*) and the Government of the City of Buenos Aires. This led the Bank to file a remedy which stays pending. This Court reduced pertinent fees from \$13,000 to \$2,000, which have already been deposited by the Bank. Plaintiff's lawyers and experts filed an extraordinary remedy for the reduction of such amounts. This matter has not been resolved yet.

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On February 10, 2005, the Users and Consumers Union filed another complaint, pending in the National Court of First Instance in Commercial Matters No. 21, Clerk's Office No. 41, regarding the collection of fees for inter-branch transfers which was forbidden by the emergency rules in force. After several appeals, the Court ordered the Bank to pay back any mischarged amounts. On May 23, 2014, a total of \$6,458 was refunded to customers with active accounts. The situation of former customers (involving amounts equivalent to those of active customers) has not been settled. The extraordinary remedy filed against the resolution ordering the transfer of funds of former clients to the National Bureau of Consumer Protection was dismissed. Therefore, a claim was filed before the Argentine Supreme Court. The pertinent fees have not been determined yet.

Moreover, the Association for the Defense of Consumers (*Asociación de Defensa de los Consumidores - ADECUA*) brought a class action against the Bank for the collection of fees on group life insurance premiums (Provincia Seguros) on loans. At this date, expert accounting reports are being prepared.

On November 22, 2012, the Bank was served notice of the complaint filed by Citibank for disagreement with future dollar sale transactions made before 2001. The Bank answered the complaint on December 19, 2012 and entered a motion to dismiss based on the lack of jurisdiction. In December 2014, the Argentine Supreme Court ruled favorably on the Bank's remedy and referred the case to be heard by a Federal Court instead of a National Court in Commercial Matters. To date, the case has gone to trial and is pending before the National Court in Civil and Commercial Matters No. 8/16.

In 1994, the Bank filed a complaint against S.U.B.P.G.A. for the collection of a foreign trade transaction with exchange insurance. The Court ruled in favor of the Bank, requiring to discount on the settlement amount any exchange insurances not applied by the Bank.

A judicial arbitrator was appointed to determine the final amount according to the Court's resolution. After settlement, the Bank turned out to be a debtor due to its failure to apply the exchange insurances in favor of S.U.B.P.G.A. The company requested the execution of the arbitrator's award for the amount of \$23,500 plus interest. The Bank filed a petition on this case which got a favorable decision. The plea of defective title raised by the Bank was sustained and execution was, therefore, rejected. Plaintiff appealed this ruling and the Court of Appeals reversed the lower court decision. The Bank filed a federal extraordinary appeal, but this appeal and the claim filed with the Argentine Supreme Court of Justice were dismissed. An attachment was levied on such amount and a fixed term deposit was placed with the Bank until final judicial resolution. On November 14, 2016, the motion to dismiss based on the statute of limitations was rejected, the execution of the arbitrator's award was approved for \$23,877 plus interest accrued from June 6, 2013 (date of the court resolution on acknowledgement of debts) at Banco Nación lending rate, and the pertinent legal costs were determined. The judgment was appealed by both parties and is now pending resolution.

With respect to the criminal event in its Belgrano branch that went public on January 3, 2011, the Bank received 47 claims, which are still pending. The Bank has set up the pertinent provisions and, up to date, 24 claims have already been paid.

The class action filed by a consumer association on behalf of customers whose safety deposit boxes had not been forced on such occasion stays pending (1,400 owners of safety deposit boxes and \$250 claimed by each of them). The complaint was dismissed and the plaintiff has appealed the ruling. Since the Bank considers that the lower court will not sustain such complaint, no provisions have been set up.

The "Proconsumer" consumer association brought an action against the Bank for reimbursement of the amounts charged to clients on account of "financing cost for deferred credit card payments". The association understood that said charge was neither expected nor authorized by the BCRA and that it represented a veiled interest amount. On February 26, 2015, the Court of Appeals upheld the judgment and notice was duly served on the Bank in March. The extraordinary remedy filed by the Bank was dismissed and is in the execution stage.

On September 10, 2008, Procurar filed a claim against the Bank for the revision and correction of the so-called "Salary Accounts" in order to stop the collection of certain fees and to get reimbursement of the amounts debited without a cause. The Bank filed a plea and, after the court resolution, it will determine whether to set up provisions or lodge an

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appeal.

The Bank estimates its reserves are sufficient to cover any unfavorable resolutions on these matters and other claims and, therefore, no negative effects are expected on its net worth.

Except for the situations described above and in Note 1 to these Financial Statements and the statement in Note 16 regarding the adjustment agreement with the Argentine Central Bank, there are no significant contingencies at the close of year for which adequate provisions have not been set up.

8. Events Subsequent to Year-End

On January 5, 2017, the Special Meeting of Shareholders of Provincia Microempresas S.A. approved a capital increase for \$150,000 pursuant to the Board of Directors' Resolution No. 1515/16. At the same meeting, the amount of \$50,000 was paid-in and the remaining contribution will be disbursed in 4 equal installments of \$25,000 in March, June, September and December, 2017.

9. Restrictions on Profit Distributions

At December 31, 2015, according to the stipulations of article 17 of the Bank's Charter and through Resolution No. 111/16, the Board of Directors distributed total 2015 Retained Earnings to increase Legal Reserve for \$242,565 and Optional Reserve for \$970,263.

Pursuant to the mentioned article of the Bank's Charter, each of the Bank's Sections shall make a separate profit and loss statement at the end of each fiscal year and shall transfer its profits to a common pool.

After deducting all the amounts necessary for clearing up the assets and ten (10) percent of the pertinent net profits for the legal reserve fund of each Section, all realized profits shall be allotted as follows:

- To the Capital account of the Investment Loan Section: the net surplus obtained by that Section.
- To increases in Capital and Reserves of any of the Sections, and to contingency, social security and investment funds, in the proportions determined by the Board of Directors.

The above procedure is in line with the provisions of article 17 of the Bank's Charter that differ from BCRA rules CONAU – 1 which provide that 20% of the profits disclosed in the Statement of Income at the close of each year plus prior year adjustments less accumulated losses at the close of the previous year must be allocated to Legal Reserve.

10. Intercompany Transactions (Law No. 19550, section 33)

The Bank's interests in its related and controlled companies are detailed below:

10.1. Interests in Equity and Non-Capitalized Contributions

10.1.1. Controlled Companies

Provincia Microempresas S.A. is a company created on July 27, 2009 for the purpose of identifying, selecting and pre-qualifying micro-businesses for loans. Grupo Banco Provincia S.A. and Banco de la Provincia de Buenos Aires are its shareholders with a 5% and 95% share, respectively.

On April 25, 2016, the Regular Meeting of Shareholders of Provincia Microempresas S.A. resolved to increase its Capital Stock, without changes in the shareholders' equity holdings. As a result, the new Capital Stock amounted to \$23,500. At December 31, 2016 and 2015, the Capital Stock of Provincia Microempresas S.A. totals \$23,500 and \$16,000, respectively. At the date of these Financial Statements, the capital stock is totally paid in.

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On March 10, 2011, by Resolution No.312/11, BA Desarrollo S.A. (successor of Agencia Invierta Buenos Aires S.A.) was created, a company designed to offer technical and financial assistance for investment projects aimed at fostering the productive development of the Province. Grupo Banco Provincia S.A. and Banco de la Provincia de Buenos Aires are its shareholders with a 50% share each. At December 31, 2016 and 2015, the subscribed Capital Stock amounted to \$20,000.

Issuing Company	Common Shares held by BPBA		Equity Interests and Votes (%)		Line of Business	Book Value Net of Allowances	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015		12/31/2016	12/31/2015
Grupo Banco Provincia S.A.	379,875	379,875	99.97	99.97	Financial Investment Transactions	173,609	291,974
Provincia Microempresas S.A.	22,325,000	15,200,000	95.00	95.00	Management of Microcredit	33,604	55,695
BA Desarrollo S.A.	10,000,000	10,000,000	50.00	50.00	Technical and Financial Assistance to Investors	4,714	6,306
Provincia Bursátil S.A.	640,000	640,000	4.00	4.00	Brokerage	2,235	1,448

See Note 18 to the Consolidated Financial Statements “Significant Developments regarding subsidiaries and other non-controlled companies”.

Moreover, Grupo Banco Provincia S.A. has equity interests in its controlled companies as follows:

Issuing Company	Common Shares (number)	Equity Interests and Votes %	Line of Business
Provincia Seguros S.A.	53,024,289	60.00	General Insurance
Provincia Bursátil S.A.	15,200,000	95.00	Brokerage
Provincia Seguros de Vida S.A.	13,068,932	45.00	Life Insurance
Provincia ART S.A.	821,400	97.09	Workers’ Compensation Insurance
Provincia Leasing S.A.	135,459	97.00	Leasing
Bapro Mandatos y Negocios S.A.	14,678,459	97.00	Business Promotion, Management and Representation
Bapro Medios de Pago S.A.	38,126,757	97.00	Means of Payment and/or Credit and Systems Management

10.2 Closing Balances of Transactions with Related and Controlled Companies

ITEM	12/31/2016	12/31/2015
Assets	239,024	400,211
Loans	238,185	400,208
Other Receivables from Financial Brokerage	839	3
Liabilities	576,339	941,207
Deposits	576,339	941,207

10.3.1 Income/(Loss) from Transactions with Controlled and Related Companies

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ITEM	12/31/2016	12/31/2015
Financial Income/(loss)	(83,080)	(72,098)
Income	81,714	67,530
Expenditure	(164,794)	(139,628)
Income/(loss) from Services	(195,748)	(136,347)
Income	205,956	168,904
Expenditure	(401,704)	(305,251)
Miscellaneous Income	5,260	213,209
Income/(Loss) on investments	-	208,515
Other	5,260	4,694
Miscellaneous Losses	129,803	-
Income/(Loss) on investments	(129,803)	-
Administrative Expenses	(107,938)	(70,474)
Total	(251,703)	(65,710)

11. Deposit Guarantee Insurance

According to the provisions of article 14 of the Bank's Charter, the Province of Buenos Aires guarantees all deposits placed with, and all bonds and other securities issued by, Banco de la Provincia de Buenos Aires. Therefore, and due to its special legal status mentioned in Note 1 to these Financial Statements, the Bank is not included within the Deposit Guarantee Insurance System established by Law No. 24485 and regulated by National Executive Orders Nos. 540/95 and 1292/96.

However, in order to contribute –together with the rest of the Financial System– to the above protection mechanism, the Bank has decided its voluntary and temporary inclusion since 1997 in the Deposit Guarantee Insurance System for Private Sector deposits.

This decision was informed to Seguros de Depósitos S.A. and the Argentine Central Bank.

12. Fiduciary Activities

By Resolution No. 207 dated February 1, 2001, the Board of Directors approved the wording of the trust agreement under the terms of Provincial Law No. 12511 to be entered into by the Bank, as trustee, the Ministry of Public Works and Services of the Province of Buenos Aires, as enforcement authority of the liens created by Decree Laws Nos. 7290/67 and 9038/78 and Law No. 8474, the Province of Buenos Aires Housing Institute (*Instituto Provincial de la Vivienda*), as the entity in charge of collecting the proceeds from the National Housing Fund (*Fondo Nacional de la Vivienda*), and the Board of Directors of the Trust Fund for the Development of the Provincial Infrastructure Plan (*Fondo Fiduciario para el Desarrollo del Plan de Infraestructura Provincial*) whereby the Province of Buenos Aires acts as trustor. The Bank signed the agreement on February 26, 2001. The purpose of the trust is to act as guarantor and/or payor of the works carried out under Law No. 12511. At December 31, 2016 and 2015, total Assets held in trust amounted to \$1,549,307 and \$1,221,250, respectively.

On February 28, 2007, the Bank, in its capacity as trustee, and the Social Security Fund for Surveyors, Architects, Engineers and Technicians of the Province of Buenos Aires (*Caja de Previsión Social para Agrimensores, Arquitectos, Ingenieros y Técnicos de la Provincia de Buenos Aires*), in its capacity as trustor and beneficiary, agreed on the creation of a trust for the administration of the funds corresponding to the capitalization system, according to the provisions of section 64 of Law

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No. 12490. At December 31, 2016 and 2015, total assets held in trust by the Bank amounted to \$2,355,624 and \$1,978,791, respectively.

By Resolution No. 177/13 dated February 21, 2013, the Board of Directors approved the Province of Buenos Aires Trust Fund for Transport Infrastructure System, a trust agreement to be subscribed between the Bank, as trustee, and the Ministry of Infrastructure of the Province of Buenos Aires, as trustor. The purpose of the agreement is to finance, according to the method instructed by the Executive Branch, plans and projects destined to the construction of roads of the main and secondary road networks of the Province of Buenos Aires, as well as those works and actions to maintain them. At December 31, 2016 and 2015, total assets held in trust by the Bank amounted to \$503,982 and \$323,498, respectively.

By Resolution No. 60/14 dated January 16, 2014, the Board of Directors created the "Financing and Technical Assistance System for Housing Improvement". This trust fund aimed at providing financing to low-income families with housing deficit which do not qualify for loans due to their low income or lack of guarantees. At December 31, 2016 and 2015, total assets held in trust by the Bank amounted to \$299,110 and \$11,654, respectively.

13. Issue of Negotiable Bonds

On November 8, 2016, the Bank issued Debt Securities in pesos for \$127,100 and \$283,333, at 18 and 36-month terms, with maturity dates on May 8, 2018 and November 8, 2019, respectively, under the Global Program of Short, Medium and Long Term Debt Securities for a maximum outstanding nominal value of US\$200,000,000 or its equivalent in pesos or other currencies. Interest will be paid on a quarterly basis, at a variable rate (nominal annual BADLAR rate plus 2.5% and 3.5%, respectively) and the principal amount will be repaid upon maturity in one single installment.

Accrued interest on these securities totaled \$13,683 at December 31, 2016.

14. Derivative Instruments

- Forward transactions without delivery of the underlying asset

At December 31, 2015, the Bank entered \$115,325 under the "Memorandum Debit Accounts – Derivatives" caption representing balances from obligations under forward transactions for foreign currency hedging without delivery of the pertinent underlying asset, as established in BCRA's Communication "A" 4454: "Compensated Forward Transactions - Open Electronic Market (OCT-MAE)".

- Forward transactions with delivery of the underlying asset

At December 31, 2016 and 2015, the Bank recorded \$7,560,654 and \$499,493, respectively, accounting for swap transactions valued as stated in Notes 2.5 and 2.6.

Moreover, at December 31, 2016 and 2015, the Bank recorded \$71,640 and \$598,563, respectively on account of forward transactions for foreign currency hedging at the Sao Paulo branch. Mention should be made that at December 31, 2015, the Bank held \$115,325 accounting for forward transactions.

At December 31, 2016 and 2015, the Bank recorded \$145,168 and \$169,200, respectively under the "Government Securities booked at Cost plus Yield" caption at the Sao Paulo branch.

At the date of these Financial Statements, the Bank held \$2,469 on account of "Government Securities booked at Fair Market Value".

15. Compliance with the requirements of the Argentine Securities Commission

The Capital Markets Law No. 26831, enacted on December 27, 2012, provides for a comprehensive reform of the public offering regime created by Law No. 17811.

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This law refers to certain matters affecting business activities such as the increase of the National Government’s regulatory powers on public offering to be exercised through the Argentine Securities Commission which shall have authorization, supervision and control powers as well as disciplinary jurisdiction and shall set rules to govern all capital market players. Moreover, it is no longer required to be a shareholder to trade in the market as intermediary agent, thus allowing other participants to enter the market and delegating on the CNV the authorization, registration and regulation of different categories of agents.

On August 1, 2013, Executive Order 1023/13 partially regulating the Capital Markets Law was published in the Official Gazette and, on September 9, 2013, CNV General Resolution No. 622 was published in the Official Gazette approving the pertinent regulation.

Such set of rules creates a registry of agents participating in the capital market. To engage in each activity regulated thereunder, agents are required to be registered with such Registry at or before March 1, 2014.

Resolution of the Board of Directors No. 2/14 dated January 2, 2014 provided for the registration of the Bank with the Registry of Agents as Settlement and Clearing Agent and Trading Agent. The registration request was approved by the CNV on September 19, 2014 under registration number 43.

In view of the operations currently performed by the Bank and considering the different categories of agents defined in CNV General Resolution No. 622, the Bank has registered before the control authority to act as: Settlement and Clearing Agent and Trading Agent - Integral.

At December 31, 2016, the Bank’s net worth surpasses the minimum net worth required by said rule, which amounts to \$22,500.- as well as the minimum required counterpart contribution of \$10,500 that, if applicable, will be covered with assets held in accounts opened with the BCRA as follows:

BCRA	ITEM	BOOK BALANCE	BALANCE AS PER STATEMENT
111015.	BCRA Checking Account	11,339,554	11,340,524
111025	BCRA – Special Checking Accounts	9,703	9,703
115015	BCRA Checking Account	16,647,504	16,649,644

The Bank is also the depositary institution of the following Mutual Funds, the net assets of which at December 31, 2016 and 2015 are detailed below:

	12/31/2016	12/31/2015
1822-Raíces Valores Negociables	228,368	65,327
1822-Raíces Renta Pesos	65,046	37,907
1822-Raíces Renta Global	58,855	58,552
1822-Raíces Pesos Fondo Común de Dinero	2,408,212	802,263
Provincia Dólares Fondo Común de Dinero	301	287
1822-Raíces Inversión	2,665,106	30,856
1822 Raíces Valores Fiduciarios	623,719	243,742

These Mutual Funds are recorded by the Bank in the "Memorandum Accounts - Items in Safekeeping" caption.

16. Regularization and Reorganization Plans

On March 4, 2011, the BCRA issued Resolution No. 92 restating the Regularization and Reorganization Plan according to the provisions of section 34 of the Law of Financial Institutions and granting new facilities and exemptions since those approved under Resolution No. 81 dated March 28, 2001 could never be implemented or became inappropriate due to the events subsequent to that date.

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The exemptions and facilities contained in the Resolution relate to prudential regulations on minimum capital requirements, exemptions on frozen assets, credit risk diversification (including limits on Public Sector Financing), setting up of minimum cash requirements for judicial deposits, valuation of guaranteed bonds at their technical value till maturity, agreement for provincial bonds to be valued at their listed price at September 30, 2010 plus accrual at the internal rate of return. The BCRA also requested the Bank to submit, within 180 days after being notified, a proposal stating a deadline for adjusting interests in related companies in accordance with the regulations in force.

As previously mentioned and in order to ease the fulfillment of the Regularization and Reorganization Plan, Resolution No. 92/11 provided for certain facilities and exemptions approved by the BCRA. It also stated that in case of significant diversions affecting the estimated projections or in case of events preventing the Bank from complying with the expected technical ratios, the Bank should submit a new proposal to solve such diversions. Should such measures not be enough to correct them within the stipulated period, the whole plan would be deemed unfulfilled.

As required in paragraph 3 of the above mentioned Resolution, as of September 1, 2011, the Bank began to send quarterly reports to the BCRA covering the periods ranging between September 30, 2011/June 30, 2012. On September 1, 2011 the Bank also submitted a letter addressing its compliance with the provisions set forth in paragraph 9 and informing that it was analyzing the projections of the related companies detailed in such Resolution and that the Province of Buenos Aires' authorities had not yet taken a decision regarding the transfer of ownership of Provincia ART. Likewise, on August 31, 2011, the BCRA received the report required in paragraph 8 of the mentioned Resolution.

According to BCRA's Communication "A" 5272, on September 29, 2012, Banco Provincia submitted its 2012-2014 Business Plan to the Argentine Central Bank. On October 31, 2012, the Bank requested the BCRA's approval to submit in mid-December 2012 the restatement of projections included in the Regularization and Reorganization Plan based on the Province of Buenos Aires' financial needs stated in the 2013 Budget.

On November 9, 2012, the BCRA issued Communication "A" 5369 (in force as of January 1, 2013) significantly modifying the regulations on minimum capital requirements and integration for Financial Institutions and the risk-weight table. Taking into account the option specified in Basel II rules that allows mitigating the weighting of exposure to the public sector, it was decided that such exposures, whether direct or through a trust, denominated or funded in pesos, will be weighted at 0%. Foreign currency-denominated loans to the public sector will continue being weighted at 100%. Likewise, loans to individuals and micro and small and medium enterprises, as well as mortgage loans for the purchase of sole family houses would be weighted at 75% and 35%, respectively, subject to certain conditions. Under the new rule, the weighting factors were reduced when compared to those in force (100% and 50%, respectively).

It also includes supplementary amendments for determining the Adjusted Net Worth, in force as of February 1, 2013.

At the same time, BCRA's rules on minimum capital requirements for interest rate risk became ineffective, but financial institutions shall continue managing this risk.

On January 10, 2013, the Bank's Board of Directors approved the 2013-2018 Strategic Plan including these changes. This plan was submitted to the BCRA on January 15, 2013 to redefine the Compliance Schedule which had been originally approved by Resolution No. 92 of the control authority dated March 04, 2011. The Bank requested the maintenance of certain exemptions contemplated in such Resolution, the granting of additional exemptions and the extension of the terms therein contemplated in case of the Bank's failure to meet the Minimum Capital Requirements until the earlier of December, 2018 or the date of final compliance. As a result of the events occurred mainly in the city of La Plata and of certain adjustments and/or clarifications that had to be made according to meetings held with the BCRA, on April 30, 2013, the Bank delivered a note to the regulatory body requesting authorization to redefine its 2013-2018 Strategic Plan in view of the existing situation and suggesting its presentation by May 31, 2013. Provisional figures at such date were submitted for BCRA's analysis.

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At December 31, 2013, the Bank was unable to comply with the commitments undertaken under Resolution No. 92/11. In order to complement the actions already taken, on January 27, 2014, the Bank submitted a note requesting the BCRA to maintain such exemptions in full force and effect until resolution of the existing situation. That would help assessing the impact of the regulatory and legal changes on both the Bank's Charter and the Fiscal Responsibility Act's requirements and moving forward with the measures taken in 2013.

On June 26 and July 22, 2014, the Bank submitted to the BCRA its 2014-2018 Compliance Schedule. Its main purpose is to achieve the Bank's self-capitalization through the generation of earnings, its inclusion in the prudential solvency rules and the maintenance of certain exemptions granted by Resolution No. 92/11 issued by the Superintendency of Financial and Exchange Institutions of the Argentine Central Bank (*Superintendencia de Entidades Financieras y Cambiarias – SEFyC*) on March 4, 2011. The Bank also requested additional exemptions related to advances made to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel, Bond received pursuant to the Debt Consolidation Agreement between the Bank and the Province of Buenos Aires (Executive Orders Nos. 2094/12 and 2190/12), Unified Fund of Official Accounts, General Exchange Position, financial assistance to provincial municipalities, minimum capital requirement for interest rate risk, minimum capital ratio, calculation of loans for productive investment and licensing of service units.

On December 18, 2014 and August 4, 2015, the Bank submitted to the BCRA its 2015-2018 Compliance Schedule. Its main purpose is to achieve self-capitalization through the generation of earnings, its inclusion in the prudential solvency rules and the maintenance of certain exemptions granted by Resolution No. 92/11, and other additional exemptions applied by the Bank contained in its 2014-2018 Compliance Schedule.

On September 28, 2015, the Bank sent a letter to the BCRA requesting an 18-month extension to submit a proposal addressing the adjustment of its interests in related companies in line with the regulations in force. It also requested an exemption to compute the criterion adopted by Provincia A.R.T. S.A. to differ the charge against income for the increase in the balance of liabilities derived from losses related to judicial claims and mediations arising from the application of section 1 of SSN Resolution No. 39214, as stated in Note 2.g to the Consolidated Financial Statements.

On March 16, 2016, the Bank sent a letter to the BCRA requesting an extension for submitting a new Compliance Schedule until obtaining reliable information on when and how the Province of Buenos Aires will cancel the debt held with the Bank, since this shall significantly impact on the Bank's financial position and its prudential ratios. Such information will allow the Bank to submit a Compliance Schedule with the adequate certainty level.

On July 18, 2016, the Bank submitted before the BCRA a letter requesting an additional period to submit a new schedule and the maintenance of certain exemptions duly granted by Resolution 92/11 until the issue of the debt held by the Province of Buenos Aires with the Bank be dealt with at Parliament. Therefore, by letter dated January 10, 2017, the BCRA requested to be informed about the advances on the mentioned Schedule's restatement and the estimated submission date.

Guaranteed Bonds-Executive Order No. 1579/02 (Bogar 2018) (see Note 2.18) have been valued, and these Financial Statements have been prepared taking into account the exemptions and facilities granted by the BCRA pursuant to Resolution No. 92/11. Therefore, they must be read in the light of these circumstances.

17. Publication of Financial Statements

In accordance with the provisions of Communication "A" 760, the BCRA's prior approval is not required to publish these Financial Statements.

18. Accounts in compliance with minimum cash requirements

According to the regulations of the BCRA, Banco de la Provincia de Buenos Aires computed the following items for minimum cash requirements at December 31, 2016.

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Minimum Cash – Balance at the end of the fiscal year - Pesos

	12/31/2016
Minimum Cash Requirement	
Credit balances in demand checking accounts opened with the BCRA	11,339,554
Credit balances in special escrow accounts opened with the BCRA	2,874,500
Credit balances in special accounts opened with the BCRA related to the payment of pension benefits	9,703
	14,223,757

Minimum Cash – Balances at the end of the fiscal year – Foreign Currency (US Dollars)

	12/31/2016
Minimum Cash Requirement	
Credit balances in demand checking accounts opened with the BCRA	16,647,504
Credit balances in special escrow accounts opened with the BCRA	68,941
	16,716,445

19. Steps towards IFRS convergence

On February 12, 2014, the BCRA issued Communication “A” 5541 establishing the guidelines of a convergence plan towards the International Financial Reporting Standards (IFRS) to be used, as from January 1, 2018, by all institutions governed by the Law of Financial institutions when preparing their annual financial statements. Such communication provides that, during the April 1, 2014/December 31, 2017 period, the BCRA will announce the adjustments to the Regulations and Reporting Regime that are necessary for IFRS convergence. The control authority, through the Superintendence of Financial and Foreign Exchange Institutions, will also monitor the progress of the convergence plans already submitted.

The BCRA, through Communication "A" 5635, has imposed a task schedule and has defined the content and formalities to be observed by the IFRS Implementation Plan that was supposed to be presented before March 31, 2015.

As required by Communication “A” 5541, the Bank's IFRS implementation plan is currently under way. Hence, by Resolutions Nos. 1507/14 dated November 20, 2014 and 271/15 dated February 26, 2015, the Board of Directors was informed about the steps to be taken towards IFRS convergence, and approved the creation and organization of the team that would be entrusted with the implementation plan.

On March 27, 2015, the Bank submitted to the BCRA the IFRS Convergence Plan approved by Resolution of its Board of Directors No. 412/15 dated March 26, 2015.

On September 29, 2015, the Bank submitted an update to the mentioned plan approved by Resolution of the Board of Directors No. 1244/15 issued on September 17, 2015.

Through Communication “A” 5844, the BCRA established the steps to be taken by financial institutions in order to reconcile their assets/ liabilities with those resulting from the application of the IFRS. Such Communication calls for a first reporting of balances at December 31, 2015, maturing on March 31, 2016, and the Bank complied with such requirement. Subsequently, such reconciliation will include balances at June 30, 2016 and December 31, 2016, maturing on September 30, 2016 and March 31, 2017, respectively. Therefore, this Bank has prepared and submitted within the term provided by the regulations in force the reconciliation of assets/liabilities resulting from the application of the IFRS at June 2016, together with the updated Convergence Plan. Both have been approved by Resolution of the Board of Directors No. 1141/16 dated September 28, 2016, thus complying with the provisions of the BCRA.

Likewise, Communication “B” 11372 provides clarifications for the above mentioned Communication.

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Communication “A” 6114 reveals the criteria that should be adopted by the Bank within the framework of IFRS convergence.

Through Resolution No. 1564/16 dated December 29, 2016, the Board of Directors was informed of the IFRS Convergence Committee's minutes for the 2016 August to November period.

20. - Other

20.1. Items Pending Allocation

This caption, appearing in both Assets and Liabilities, includes the following peso and foreign currency items:

	12/31/2016		12/31/2015	
	Assets	Liabilities	Assets	Liabilities
Funds pertaining to the Bank	7,059	3,753	5,940	3,961
Third-party Funds	42	279	277	2,593
- Other	27,195	18,209	19,336	19,369
	34,296	22,241	25,553	25,923

These items are monitored and cleared by the Bank, carrying out a regular follow-up of their breakdowns and control over different items. This has enabled the Bank to reduce the number of unresolved cases. Therefore, at December 31, 2016, there appears no significant balance inconsistent with the regular transactions usually carried out by the Bank.

20.2. Contributions to Health and Social Services and Social Security

The Bank contributes to the Health and Social Services Commission (*Comisión de Servicios Sociales*), which arranges for the distribution of funds among its affiliated entities. Therefore, the Bank is not bound to make contributions to the Health and Social Services Institute for Bank Employees (*Instituto de Servicios Sociales Bancarios*), according to the provisions of Law 19322, Section 17.

Retirement and pension contributions are made to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel (*Caja de Jubilaciones, Subsidios y Pensiones del Personal del Banco de la Provincia de Buenos Aires*) governed by Provincial Law No. 11761 in force until November 2008 and by Provincial Law No. 13873 effective since December 1, 2008. Therefore, the Bank is not required to contribute to any other retirement and pension fund system.

At December 31, 2016 and 2015, the Bank recorded \$7,468,923 and \$3,407,594 under the “Miscellaneous Receivables” caption on account of advances of pension contributions granted to such body. The purpose was to cover the deficit in pension payments until transfer by the Province of the pertinent funds. (See Note 20.3).

20.3. Issuance of Debt Securities by the Province of Buenos Aires

On July 31, 2013, through Executive Order N° 1620 dated December 28, 2012, the Bank was informed that the Provincial Executive Branch provided for the issuance of a Government Bond with a nominal value of \$350,000 to partially settle debts arising from advances made by the Bank to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel to cover any deficit recorded in 2012, according to the provisions of section 56 of the Provincial Budgetary Law N° 14331.

On such date, the Bank was also informed that, through Executive Order N° 2094 of December 28, 2012, the Provincial Executive Branch approved the “Debt Consolidation Agreement” between the Provincial Ministry of Economy and the Bank providing for the reciprocal offsetting of claims, as identified and approved by the parties involved. After signing the

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pertinent agreement, a claim for \$3,435,991 resulted in favor of the Bank, which shall be settled by the Province through the delivery of a Government Bond, at its nominal value up to the total contractual amount, repayable at 6 years from issuance date (December 28, 2012), according to the terms and conditions stated in Provincial Executive Order No. 2190/12.

In December 2014, the Bank was informed of the issuance of Executive Orders Nos. 1679 and 1680 dated December 30, 2013. Through Executive Order No. 1679/13, the Provincial Executive Branch provided for the issuance of a Government Bond with a nominal value of \$1,599,161 to partially settle debts arising from advances made by the Bank to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel to cover the deficit recorded in 2013. (See Note 20.2).

Through Executive Order No. 1680/13, the Addendum to the Debt Consolidation Agreement dated December 28, 2012 was approved and duly signed by the Provincial Ministry of Economy and the Bank on December 30, 2013, thus amending the terms and conditions of the Government Security approved under Executive Order No. 2190/12.

On April 30, 2015, through Resolution No.520/15, the Bank's Board of Directors resolved to approve the steps taken by the Bank's President with respect to the second Addendum to the Mutual Debt Offsetting Agreement with the Province of Buenos Aires dated December 2014. Such addendum, enforceable upon approval of the pertinent rules, introduced a new amendment to the terms and conditions of the mentioned bond, by adding to the claims to be set off, the capitalized interest amount for the 2013 and 2014 fiscal years and the interest amount outstanding at December 31, 2013. Thus, the amount to be received by the Bank totaled \$4,806,479.

In September 2015, the Bank was informed about the issuance of Executive Order No. 2100/14 dated December 30, 2014 that modifies the terms and conditions of the bonds approved by Executive Orders Nos. 1620/12 and 1679/13.

In December 2015, the Bank was informed about the issuance of Executive Order No. 1954/5 dated December 1, 2015, whereby the Provincial Executive Branch provides for the issuance of bonds for a nominal value amount of \$2,079,000 to partially settle debts arising from advances made by the Bank to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel to cover the deficit recorded in 2014.

At the date of issuance of these Financial Statements, the Government of the Province of Buenos Aires has requested authorization from the National Ministry of Economy to issue the mentioned bonds, and the pertinent approval is still pending.

Such receivables are recorded under the heading "Other Receivables from Financial Brokerage – Other included in the Debtors' Classification Rules".

20.4. Branches Abroad

On March 19, 2009, by Resolution No. 324/09, the Bank's Board of Directors decided the closing of its Grand Cayman Branch and informed by letter to the Cayman Islands Monetary Authority accordingly.

According to the provisions stated in Annex to the Closing Action Plan, by Resolution No. 1609/16 dated December 29, 2016, the Board of Directors stipulated the final closure of the Grand Cayman Branch and the Panama representative office. Therefore, all their inventories were liquidated and every action to achieve closure was taken.

At the date of issuance of these Financial Statements, the Board of Directors' stipulation had been complied with.

20.5. Market Discipline

As required by Communication "A" 5394, the "Institutional" tab of the Bank's web page (www.bancoprovincia.com.ar) contains a document entitled "Market Discipline – Minimum Reporting Requirements" which provides data regarding its

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structure, capital adequacy, risk exposure and general management.

20.6. Settlement of debts with National Public Debt Bonds.

National Executive Order No. 469/02 dated March 6, 2002 regulated the procedure for settling debts with the Financial System provided for by Executive Order No. 1387/01, sections 30 a) and 39, as amended and supplemented by Executive Orders Nos. 1524/01 and 1570/01.

By Communication "A" 3398, the Argentine Central Bank established the pertinent regulations for the settlement with National Public Debt Bonds of debts owned by debtors classified under categories 1, 2, 3, 4 and 5 at August 2001, conditioning the settlement by debtors in categories 1 to 3 with prior approval of such Institution.

Under the above procedure, 327 debtors paid off principal and interest debts for \$102,749 between February 14, 2002 and May 15, 2002.

Government Securities received in settlement of the above debts were included in the Bank's net worth at the higher of the Bond's price or the book value of the loan paid off, net of allowances. Such Government Securities were delivered to the National Government in exchange for Secured Loans under Executive Order No. 1387/01.

In addition, 276 debtors classified under categories 1 to 3 at August 2001 brought legal actions against the Bank to protect their rights (amparos) since the above method was not accepted to pay off their debts. As a consequence, precautionary measures prohibiting the Bank from changing the customer's situation until rendering of final judgment were issued in favor of debtors, thus preventing any legal action against them. The Bank has been legally defending its rights and has analyzed whether pending actions are similar to the case seeking declaration of unconstitutionality entitled "Agüero Máximo José y Ovejero Cornejo de Agüero, Teresa c/ Banco de la Nación Argentina s/ Acción Declarativa de inconstitucionalidad" where judgment has already been rendered by the Argentine Supreme Court. The analysis reveals an 80% similarity in allegations of facts.

At the date of these Financial Statements, the Bank may assure that 34% out of all pending trials will not have adverse effects on it; that is, even though the trial is in process, the alleged claim is already settled. With the intention of terminating court actions, various petitions defending the Bank's interests have been filed; however, the favorable decisions obtained could not be executed yet due to delays in Federal Courts attributable to the high volume of cases dealing with "corralito" matters.

Mention should also be made that 60% of such actions are pending in the jurisdiction of La Plata, where the above ruling by the Argentine Supreme Court has been adhered to by all instances.

Therefore, the Bank estimates that the remaining cases would not significantly impact on its net worth since, although trials are in process, they have no negative bearing on the provisions it has set up.

20.7. Amounts Paid under Injunctions

In accordance with Communication "A" 3916, any differences arising from compliance with judicial orders under legal actions brought by natural and artificial persons against the National Government and/or financial institutions, regarding the conversion into pesos and rescheduling of foreign currency deposits decided by the National Executive Branch, are informed under the "Intangible Assets - Organization and Development Expenses" caption, and will be amortized in 60 months.

Therefore, at December 31, 2016 and 2015, the Bank registered under the "Intangible Assets – Organization and Development Expenses" caption the original value of the difference between the amount paid under the court order and the amount entered according to the rules in force at the payment date for \$1,061,026 and \$1,040,424, respectively; and \$1,005,191 and \$986,391 corresponding to the accumulated amortization.

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In compliance with Communication "A" 4439, the Bank has decided to defer, since December 2005, the recording of losses on exchange differences capitalized in the Financial Statements for an amount equivalent to 50% of new commercial loans for terms averaging not less than 2 years with certain restrictions; this amount could not exceed 10% of the adjusted net worth as of the second prior month.

20.8. Rules for the protection of financial service users

On June 10, 2014, the BCRA issued Communications "A" 5590 to 5593, which were immediately implemented after their issuance. They amended the provisions governing consumer and pledge loans and tightened control over interest rates, fees and charges. The new measures provide:

a) for the application of benchmark interest rates for consumer and pledge loans granted to individuals (not MiSMEs) with a cap amount for the pertinent term and a multiplicative factor ranging from 1.25 to 2.00, depending on the type of loan and the Group to which the Bank belongs.

b) for the introduction of the "Nominal Annual - Total Financial Cost" concept in order to avoid distortions. It will be expressed as a nominal annual rate (percentage and two decimals) that will arise from adding the pertinent transactional fees and charges to the interest rate.

c) that financial institutions and non-financial issuers of credit cards shall obtain the prior authorization of the Central Bank to increase basic financial service costs and implement changes in the relevant items, all of which shall be formally requested to the BCRA.

At present, the mentioned rules have not significantly impacted on the Bank's financial statements.

Through Communication "A" 5640, the Central Bank provided that, as of October 8, 2014, interest rates for peso fixed-rate deposits held by natural persons shall not be lower than the benchmark borrowing interest rate monthly published by said institution. Should such minimum rate for savers be not applied, the Minimum Cash Requirement in Pesos will be increased by the amount of such deposits, as recorded in the month following default. No compensation among placements shall be accepted. However, failure to comply will enable the Superintendency of Financial and Foreign Exchange Institutions to start investigation proceedings.

Communication "A" 5685 introduced amendments to the rules for the protection of financial service users, stating that as of December 23, 2014, the commissions charged to new products and/or services, and any increase in prevailing commissions, must be previously authorized by the Central Bank.

20.9. Penalties imposed on the Bank and administrative proceedings instituted by the BCRA.

Penalties:

In File No. 2637/2011, the Financial Intelligence Unit (FIU) initiated investigation proceedings against Banco de la Provincia de Buenos Aires and Mr. Dámaso Larraburu, in his capacity as compliance officer, on account of the presumed lack of fulfillment of the duty to report the transactions made by Mr. Rodrigo Gabriel Mallea from March 20 to August 3, 2009 for a total amount of \$320. The FIU's Resolution No. 05/14 dated January 9, 2014, duly notified on January 10, 2014, imposes a penalty of \$320 to both Mr. Dámaso Larraburu and Banco de la Provincia de Buenos Aires. Such measure is not final since direct appeals have been filed before the National Court of Appeals in Administrative Matters, Division I, where both actions are pending due to their interrelationship (cases entitled "BPBA c/ UIF S/ CP ley 25246 Dto 290/07 Art 25" and "Larraburu Damaso c/ UIF s/ CP ley 25246 DTO 290/07 Art 25"). The FIU was served notice of said appeals, which were duly answered on March 10, 2015. On April 22, 2015, the prosecutor issued an opinion adverse to the Bank. On April 30, 2015, the files were returned to the pertinent Division and are still pending resolution. As for the probability of occurrence, mention should be made that this is a penalty already imposed by the FIU that was timely appealed. At the

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reporting date, the penalty amount could not be estimated. The Bank decided to set up a provision for \$640.

On July 14, 2016, the National Court of Appeals in Administrative Matters, Division I, rendered a decision sustaining the claim on the statute of limitations filed by the Bank and Mr. Larraburu. The Court ruled that the FIU's power to impose penalties on BAPRO and Mr. Larraburu was terminated. The FIU filed an extraordinary appeal against such decision which was already answered by the Bank. Such appeal is still pending resolution.

In File No. 1332/13, the FIU initiated investigation proceedings to determine if the Bank had failed to report 17 foreign currency purchase transactions for \$513 made by Mr. Ernesto Jacobowicz from October 14, 2008 to March 11, 2009. The FIU's Resolution No.544/13 ordered an investigation proceeding to determine the responsibilities of Banco de la Provincia de Buenos Aires, its Board of Directors and the pertinent Compliance Officer. The FIU imposed the Board of Directors and the Compliance Officer, on one hand, and the Bank, on the other, to pay a penalty of \$513 within 10 days. Such penalties were duly paid and a direct appeal against the FIU's Resolution was filed before the National Court of Appeals in Administrative Matters, Division III (case entitled "Banco de la Provincia de Buenos Aires c/ UIF s/Código Penal Ley 25.246 – Decreto 290/07 – art. 25 (Expte: 5621/2016)". On July 12, 2016, the Court ordered to serve notice of such direct appeal to the FIU. On September 27, 2016, notice of these proceedings was served to the FIU who duly answered on November 15, 2016. Currently, the case is pending settlement.

In File No. 1793/13, the FIU initiated investigation proceedings to determine if the Bank had failed to report foreign currency purchase transactions for \$303 made by Mrs. María Rosa Batistutti from February 26, 2009 to June 29, 2009.

The FIU's Resolution No. 600/13 ordered an investigation proceeding to determine the responsibilities of Banco de la Provincia de Buenos Aires, its Board of Directors and the pertinent Compliance Officer. The FIU imposed the Board of Directors and the Compliance Office, on one hand, and the Bank, on the other, to pay a penalty of \$303 within 10 days. Such penalties were duly paid and a direct appeal against the FIU's Resolution was filed before the National Court of Appeals in Administrative Matters, Division II (case entitled "Banco de la Provincia de Buenos Aires c/ UIF s/ Código Penal Ley 25.246 – Decreto 290/07 – Art. 25 (Expte:380/2016)". On September 20, 2016, the Court decided that the FIU had no power to impose a penalty based on the statute of limitations. The Bank was notified on September 22, 2016. On October 6, 2016 the FIU filed an extraordinary appeal which was duly answered. On December 26, 2016, the Court denied the FIU such appeal and ordered to pay legal costs. Such decision has not been notified yet.

In File No. 1645/13, the FIU initiated investigation proceedings to determine if the Bank had failed to report foreign currency purchase transactions for \$337 made by Mr. Jorge Alberto Rodríguez from January 15, 2009 to May 15, 2009. The FIU's Resolution No. 523/13 ordered an investigation proceeding to determine the responsibilities of Banco de la Provincia de Buenos Aires, its Board of Directors and the pertinent Compliance Officer. The FIU imposed the Board of Directors and the Compliance Officer, on one hand, and the Bank, on the other, to pay a penalty of \$337. Such penalties were duly paid and a direct appeal against the FIU's Resolution was filed before the National Court of Appeals in Administrative Matters, Division I (case entitled "Banco de la Provincia de Buenos Aires c/ UIF s/ Código Penal Ley 25.246 – Decreto 290/07 – Art. 25 (Expte: 379/2016)". The FIU was notified of this proceeding, which was duly answered. The case is still pending resolution.

Administrative Proceedings instituted by the BCRA:

Financial administrative proceedings – File No. 1324/2010

Notice of these proceedings was served on February 8, 2012 and duly answered on February 16, 2012. Proceedings arise from the presumed breach of the duty to report the appointment of new authorities and the lack of submission or late submission of the documents related to such appointments from January 9, 2006 to October 13, 2006. The mentioned breach would have occurred between December 19, 2007 and September 15, 2008 taking into account the due date to inform the appointments and the date of actual delivery of the requested documents. The Central Bank's Resolution No. 434, dated February 7, 2012, instructed to carry out investigation proceedings against Banco de la Provincia de Buenos Aires and Messrs. Martín Lousteau and Guillermo Francos under section 41 of the Law of Financial Institutions. The alleged

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breach is of a legal and regulatory nature and the penalty amount has not been determined yet. The outcome of the actions cannot be foreseen with certainty, therefore it is not possible to predict occurrence and make a pecuniary estimation.

Administrative proceedings for foreign exchange offense – File No. 5770/2014

Notice of these proceedings was served on June 10, 2014 and duly answered on July 10, 2014. The trial process was declared ended and a report was filed according to Section 8 paragraph C of Law No. 19359. On July 22, 2015, the Court with jurisdiction over Financial Crimes No. 3 served official notice of the case with details of the rules and regulations to be applied. The actions were based on certain foreign currency sale transactions involving natural and artificial persons who were not entitled to operate without approval of the BCRA. The breach period was June 2, 2008/September 9, 2009 and the amount involved totaled US\$82,427. The Central Bank's Resolution No. 274 instructed to carry out investigation proceedings against Banco de la Provincia de Buenos Aires and Messrs. Sergio Ares and Javier Norberto Lardizábal with regard to the tasks they performed when the transactions took place.

On May 2, 2016, the Court served notice to the Bank stating the acquittal of Banco de la Provincia de Buenos Aires and Messrs. Sergio Ares and Javier Lardizábal. This Court rendered its final decision.

Administrative proceedings for foreign exchange offense – File No. 6092

Notice of these proceedings was served on January 22, 2015 and defenses were filed on March 4, 2015. Evidence was duly produced, and on July 29, 2015, a report was filed according to Section 8, paragraph C of Law No. 19359. The Bank and three former officers were accused of breaching Art. 1, paragraphs e) and f) of the Criminal Foreign Exchange Regime and Communication "A" 4662 of the Central Bank on the grounds of a US dollarexchange transaction involving the sale of US\$10,000 in traveler checks to a "non-resident" in excess of the US\$5,000 monthly limit fixed by Communication "A" 4662, without the BCRA authorization. The transaction took place on December 11, 2008. The amount in breach of this limitation was US\$5,000, accounting for the amount sold in excess. Through Resolution No. 839 dated December 4, 2014, the BCRA instructed to carry out investigation proceedings against Banco de la Provincia de Buenos Aires and Messrs. Roberto Domingo Lococo, Miguel Esteban Dominguez and Teresita del Carmen Hernandez, who served as Treasurer, Operative Deputy Manager and Manager of the Lacroze Branch, respectively, at the moment the objected transactions took place. The Court with jurisdiction over Financial Crimes No. 3 served official notice of the case with details of the rules and regulations to be applied. These proceedings are currently under analysis by the Central Bank, therefore, it is not possible yet to predict occurrence and/or make a pecuniary estimation.

On July 12, 2016, the Court served notice stating the acquittal of Banco de la Provincia de Buenos Aires and Messrs. Roberto Lococo, Miguel Dominguez and Teresita del Carmen Hernández. This Court rendered its final decision.

20.10. Risk Management

The Bank has in place a comprehensive risk management policy and develops new strategies oriented to risk identification, measurement, follow up and mitigation of risks in accordance with the best practices laid down by the Basel Committee and incorporated by the BCRA.

Risk Management – Structure and organization, approval and exceptions to existing limits

In accordance with the rules set forth by the Regulatory Authority (Consolidated text of "Guidelines on Risk Management in Financial Institutions"), the Board of Directors approved the structure necessary to perform a comprehensive risk management in terms of size, economic relevance, nature and complexity of the transactions carried out by the Bank.

For that purpose, the Bank created the Risk Administration Management consisting of the following Deputy

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Managements:

- **Credit Risk:** carries out the follow-up of concentration, country, counterparty and residual risks.
- **Operational Risk:** monitors reputational risk.
- **Financial Risk:** measures market, interest rate, liquidity, funding concentration, strategic risks and securitization.

Moreover, the Risk Committee was created to give an institutional treatment to the policies, strategies and procedures that constitute the "Management Framework" for each of the managed risks, which are subject to revision and/or updating at least once a year.

This Committee is in charge of determining the Bank's tolerance risk in terms of the defined purposes and of submitting the proposals to the Board of Directors for approval. Therefore, it is important that management policies, tools and procedures match the stated risk appetite so as to ensure that the risks taken are within such limits.

An "Exceptions to Limits Procedure" is available for situations where, as a result of the daily Bank's transactions, the limit fixed by the Strategies and Policies defined for each of the main risks needs to be surpassed. This envisages the adoption of guidelines for the decision-making process and the determination of the responsible area, in order to ensure an effective coordination and communication bank-wide. Therefore, it is of vital importance that the whole banking institution be aware of the limits set on the risks faced by the Bank and of the procedure to be followed upon surpassing the limits.

Scope and nature of risk reporting and risk measurement systems

Pursuant to the consolidated text of the "Guidelines on Risk Management in Financial Institutions" issued by the BCRA, the institutions must define limits to manage their main risks and analyze their exposures, implementing proper procedures to carry out an appropriate follow-up and taking the relevant measures if exposures approach such limits.

At the same time, the Bank has to determine intermediate thresholds to monitor the risks evolution and, if necessary, to take follow-up actions or corrective measures so as to adopt a proactive stance on the development of the risk factor causing such approach.

An Early Warning Risk Indicator System (SIRAT) is used to ensure an adequate and comprehensive monitoring and follow-up of the risks to which the Bank is exposed. This system is subject to the Board of Director's guidelines and the regulations in force. It works as a balanced scorecard tool that includes a set of key risk indicators for each significant risk; contingency and management limits are also established for financial and credit risks.

Among the several tools used to monitor the risks under management, one of them is the monthly Managerial Report submitted to the Risk Committee. This Report provides information on the evolution and follow-up of different risks (the frequency depends on the type of risk) and takes into account certain aspects such as:

- **Credit:** loan portfolio composition and evolution, non-performing share and levels, sensitivity analysis, monitoring of significant macroeconomic and financial variables to avoid potential negative effects on customers' behavior, comparative analysis with the Financial System; country risk, branches abroad, etc. Credit risk measurement systems have been calibrated according to the information migrated during the year, which is available in the corporate datawarehouse.

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- **Market:** daily measurement of the exposure to the market risk, ongoing follow-up of the conditions in local and international financial and monetary markets, with special emphasis on the control of different market risk factors (interest rates, prices of government securities, exchange rates, etc.). Likewise, in order to monitor this indicator on a daily basis, a new tool has been developed to forecast the impact of different purchase/sale transactions regarding assets exposed to market risk.
- **Liquidity:** daily follow-up monitoring certain variables, such as basic and broad liquidity ratios (both in pesos and foreign currency), deposits (evolution, average terms, demand deposits against term deposits, share of retail and wholesale deposits, etc.), loans (growth pace of deposits, average terms and rates, etc.) and borrowing interest rates (of the Bank and the average Financial System for the retail and wholesale segments). Through the development of a liquidity GAP assessment tool, the Bank manages the inflows and outflows of funds for different time periods. The liquidity GAP tool helps calculate any asset/liability mismatch at a certain date and for accumulated time periods (both in the contractual GAP or current GAP versions where some assumptions on the asset/liability performance are included).
- **Concentration:** is managed through the analysis and monitoring of a set of metrics intended to limit excessive funding concentration. It is measured from a three-fold focus:
 1. By Client: focusing on the evolution of exposures to a single client or group of large depositors, analyzing Public and Private Sectors separately;
 2. By Category: monitoring the exposure of depositors sharing similar characteristics;
 3. By Product: analyzing concentration levels in accordance with the diversity of products offered by the Bank.

The analysis of concentration by Herfindahl Hirschman Index (HHI) and major debtors' share enable to create concentration ratios that may be allocated to different sectors, products or lines of business. According to the ratios defined by indicators, limits, weighting factors or capital allocations may be determined to mitigate the lack of diversification of the relevant portfolio, product or sector. To this effect, the following aspects are analyzed:

- HHI 1000 Major Clients – Total Portfolio
- HHI 1000 Major Clients – Private Sector
- Concentration of 10 Major Debtors
- Concentration of 10 Major Debtors from the Private Sector

- **Interest Rate:** there are two different ways of approaching interest rate risk management:
 - Financial margin (NII: estimates the potential impact of increased interest rates on the net financial income expected for the next twelve-month period.
 - Economic value (EV): calculates the potential variation in the Bank's economic value in case of an increase in interest rates.
- **Strategic Risk:** is mainly addressed through a careful analysis of quarterly deviations from the Business Plan, using a macroeconomic approach that helps understand the Bank's operating context so as to identify whether deviations from goals arise from exogenous or endogenous factors.
- **Operational Risk:** new risk indicators are being developed based on the collection of operational risk events – for the purpose of the compliance with the prevailing reporting requirements, the internal management of risks and

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the performance of operational risk self-assessments. To this end, new assessment guidelines were defined, grounded on expert judgment.

- **Reputational Risk:** key indicators are monitored, based on data collected from different sources (mass media, in-house information on complaints lodged by customers and non-customers).

Risk coverage and mitigation policies; procedures to test coverage efficiency

- **Credit and concentration risks:** the Bank monitors the Probability of Default (PD) for each loan portfolio, adjusting the pertinent methodologies on a case-by-case basis. In order to analyze risk coverage, the Expected Losses (EL) for the different loan portfolios are measured and subsequently matched against allowances; the economic capital (EC) required is calculated to protect the Bank against unexpected losses. Three essential parameters are used in the calculation of EL and EC: probability of default (PD), exposure at default (EAD) and loss given default (LGD). PD and EAD, together with LGD of the household segment, are calculated on the basis of historical information available in datawarehouse while LGD of the commercial segment is based on conservative assumptions assigned to transactions in line with the collateral involved. The credit rating tools (ratings and scorings) assess the risk inherent in each transaction, facility or customer in accordance with their credit quality by assigning them a score. Credit risk for the Bank's portfolio is measured through a model where the effects of concentration and diversification are analyzed. This model enables a more comprehensive calculation of capital needs considering that risk comes from various sources. It is sensitive to geographic and sector diversification and to the concentration that may exist in certain exposures, such as the Bank's largest customers.
- **Market risk:** The Bank makes a daily follow-up of all exposures to market risk. Market risk is mitigated by selling long positions or matching short positions, verifying afterward the effective risk reduction.
- **Liquidity risk:** the Bank carries out a conservative strategy, taking into account that deposits are its main source of funding. Liquidity risk is daily managed through a large set of indicators, as stated above.
- **Interest Rate Risk:** is one of the most complex financial risks to be covered. Liabilities with an average life shorter than assets constitute a distinctive feature of commercial banks, representing the main source of interest rate risk. In this sense, mitigation measures include the risk analysis of new products, taking into account, among others, the following parameters: credit facilities terms, type of interest rates (fixed, variable or mixed) and amortization system (German, French, etc.).
- **Operational Risk:** workshops and training courses intended to spread the operational risk culture bank-wide were held throughout the year. The methodology timely approved for integrating technological and operational risks continued during 2016, including the following tasks: 1) definition of the applications to be used by each business process; 2) determination of the relevance percentage of each application within the business process; 3) identification of IT solutions (Information Assets); 4) classification of IT solutions according to technological risk; 5) calculation of the aggregated technological risk indicator; 6) concentration of Operational Risk information; 7) Operational Risk/Technological Risk integration.

20.11. Transparency Policy on Corporate Governance

In compliance with the provisions of the Law of Financial Institutions No. 21526 and the regulations issued by the BCRA, the Bank has implemented an Institutional Governance Code taking into consideration the above guidelines.

On March 7, 2012, the BCRA issued Communication "A" 5293 requiring financial institutions the publication of information

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on their Transparency Policy as regards Corporate Governance. The Code implemented by the Bank contemplates its prevailing regulatory framework. It includes the following information:

Structure of the Board of Directors

The Bank’s Charter was enacted by Decree Law No. 9434/79. It includes the amendments introduced by Decree Law No. 9840/82 and has been ordered in accordance with Executive Order No. 9166/86. It also includes several amendments introduced by other provincial laws, and is the main Law governing the operations of the Bank. It consists of 15 chapters regulating the Bank’s activities, transactions, functions and administrative and governance responsibilities.

The administration of the Bank shall be vested in a Board of Directors consisting of one (1) Chairman and eight (8) voting members, all of whom shall be of Argentine nationality. They shall be appointed by the Provincial Executive Branch and the approval of the Senate of the Province of Buenos Aires shall be required. The Chairman and the voting members shall be duly qualified for their offices.

Members shall hold office for a term of four (4) years and may be re-elected. One half of the voting members shall be renewed every two (2) years.

Legislators, judges, mayors and city council members; wage-earners, salaried employees or officers of the national, provincial or municipal governments, as well as administrators, chairmen, directors, managers or employees from other banks shall not be eligible as Chairman or as members of the Board of Directors. Any individual holding office in any economic or financial coordination government agency, whether at the national, provincial or inter-provincial level, as well as any individual holding a teaching or educational position shall be exempted from the above-mentioned disqualifications.

At its first meeting held every year, the Board of Directors shall elect from its own number a Vice-Chairman and a Secretary.

Any vacancy of the office of Chairman or Director shall be filled by a substitute appointed for the remaining term. In case of absence or inability of the Chairman, his/her powers and duties shall devolve on the Vice-Chairman. Should both of them be absent, the Board of Directors shall be chaired by the eldest director. In the event of absence or inability of the Secretary, the Board of Directors shall appoint a substitute.

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Structure of the General Management

The Charter also establishes that the management of the Bank shall be vested in a General Manager and, as applicable, in a Deputy General Manager.

The Board of Directors shall regulate the duties to be performed by the members of the General Management, and the General Manager shall be the Chairman's and Directors' immediate advisor. They shall have the necessary qualifications and expertise in financial matters to administer and manage the banking business as well as the adequate control of the personnel under their direct supervision.

Commissions and Committees

The Bank has Internal Governing Rules in place regulating the operation of the Board of Directors' Commissions and Committees. Such rules provide for the duties and responsibilities of the members of such Commissions and Committees, which shall be composed as follows:

Coordinator: A Director appointed by the Chairman of the Board of Directors.

Members:

- At least three Directors, including the Coordinator, appointed by the Chairman.
- Members of the General Management (General Manager, Senior Deputy General Manager or Deputy General Managers) in charge of supervising the pertinent commission's or committee's areas of responsibility.
- Officers in charge of the organizational units engaged in the activities under the responsibility of the pertinent commission or committee (minimum rank: Deputy Department Manager).

Board of Directors' officers and collaborators may attend as participants, if necessary.

The Bank provides for the operation of the following Commissions and Committees:

- Auditing Committee
- Administration Commission
- Assets and Liabilities Management Committee
- Credit Management Commission
- Anti-Money Laundering Committee
- Internal Affairs Commission
- Legal Affairs and Delinquency Commission
- Human Resources Committee
- IT and Systems Committee
- Finance Commission
- Risk Committee
- Institutional Governance, Ethics and Compliance Committee
- IFRS Convergence Committee
- Business Development Commission

Organizational Structure

At December 31, 2016, the Bank has 10,440 employees and a network for the distribution of products and services consisting of 346 branches (including delegations), and 35 operating annex buildings throughout the Province of Buenos

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Aires and the Autonomous City of Buenos Aires.

The following officers and units shall report to the Board of Directors/Chairman:

- Internal Affairs
- Internal Audit Unit
- Compliance and Economic Research
- Institutional Communication
- Anti-Money Laundering
- "Dr. Arturo Jauretche" Historical Archives and Museum of the BPBA.
- Administrative Unit
- Minutes Secretary's Office
- Strategic Management Unit

The following areas shall report to the General Manager:

- Deputy General Management – Finance
- Deputy General Management – Marketing and Loans
- Deputy General Management – Business Development
- Deputy General Management – Risks
- Deputy General Management – Administration
- Deputy General Management – Processes and Technology
- Deputy General Management - Services and Operating Control
- Legal Opinions Management
- Human Resources
- Administrative and Professional Support Unit

Information on economic incentives to staff members

The Board of Directors is responsible for defining the incentive policy for staff.

Likewise, in line with the provisions of the Bank's Administrative Manual, the implementation of general incentive programs is within the scope of the Human Resources Management.

The pattern of salaries is of a universal nature. It is based on the pay scale applicable to the whole banking industry with certain extra payments according to employee's specific rank within the bank, unfavorable working areas, business units located far from urban zones or certain operative offices.

With respect to staff performing duties in overseas branches, salaries are proposed by the Foreign Trade Management taking into account the status of the branch and the remuneration level paid in the pertinent local market.

The Bank assesses staff performance by means of an annual performance assessment and management system and asemiannual follow-up report. This tool has neither direct nor immediate impact on staff remuneration but affects promotion expectations since the corresponding result is taken into account when analyzing future promotions or job changes.

The model in use assesses employees' capabilities, as previously described for the different positions to be filled.

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It is worth mentioning that in case of adverse individual performance indicators, the Bank takes measures which are not related to the remuneration level (for example: educational or training actions).

Likewise, the measurement of business goals in certain positions results in additional payments which are closely linked to the duties actually performed. The designed tool is applied in accordance with the goals quarterly defined for each of the Regional Centers. These goals are reviewed, updated and adjusted by the Marketing and Loans Deputy General Management. According to the business goals achieved, Branch Operations Deputy Managers and Managers, Treasurers and Managers and Heads and Business Officers, who are in charge of commercial coordination in Regional Centers, will receive an extra amount on the additional payment they get.

Finally, variable remuneration is not provided.

Business Conduct Policy and/or Ethics Code, and Applicable Governance Policy or Structure

The Bank has established that its employees, irrespective of their type of labor relationship, shall avoid any situation that may give rise to a conflict of interest, whether private or personal, capable of compromising the impartiality and objectivity required for the performance of their duties.

Private or personal interests shall mean any benefit in favor of the employee, his/her family members or close friends and/or any third party.

Under the Bank's Bylaws and Disciplinary Rules of Procedures, employees are obliged to decline any participation in an issue in which their involvement may be considered partial or morally incompatible; they must also report to the pertinent senior authorities any action or proceedings that may prove detrimental to the Bank or constitute a crime or administrative offence.

Such Bylaws provide that, notwithstanding any civil or criminal liabilities arising therefrom, infringements by employees may be subject to the following disciplinary measures:

- Reprimand
- Warning
- Conditional suspension
- Suspension
- Promotion postponement
- Demotion
- Layoff
- Dismissal

The scope and effect of these disciplinary measures, as well as the authority empowered to impose them upon administrative investigation, are defined in the pertinent regulations.

The Bank's Role as Financial Agent of the Non-Financial Public Sector

As stated in its Charter, the Bank is the financial agent for the Government of the Province of Buenos Aires. It enjoys full autonomy and shall be exclusively administered by its Board of Directors.

The relationship between the Bank and the Provincial Executive Branch shall be held through the Ministry of Economy of the Province of Buenos Aires.

Conflicts of Interest Policies

The Bank laid out the guidelines to refrain from taking certain decisions that might involve conflicts of interest with respect to the activities and commitments of the members of the Board of Directors and the General Management with other organizations.

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Public Information

In order to encourage good Institutional Governance, the Bank publishes in its web page www.bancoprovincia.com.ar relevant information to depositors, investors and general public. That information includes:

- a. Charter
- b. Authorities
- c. Organizational Structure
- d. Institutional Governance Code
- e. Ethics Code and Manual of Good Banking Practices
- f. Transparency Policy
- g. Sustainability and Quality Policy
- h. Code of Conduct in the Role as Settlement and Clearing Agent
- i. Role as Financial Agent of the Provincial Public Sector
- j. Conflicts of Interest Policy
- k. Market Discipline. Minimum Disclosure Requirements
- l. Annual Report and Financial Statements together with their notes, exhibits and independent auditor's report.
- m. Information requested by Communication "A" 5460 of the BCRA on Protection of Financial Services Users.
- n. Information about ATMs accessible to visually impaired people

21. Breakdown of "Miscellaneous" or "Other" Items with Balances Exceeding 20% of the Total for the Relevant Caption

There follows a breakdown of the "Miscellaneous" and "Other" items in the Financial Statements for the fiscal year ended Saturday, December 31, 2016 and comparative figures:

	12/31/2016	12/31/2015
1 Interests in Other Companies - Other		
. In Grupo Banco Provincia S.A.	173,609	291,974
. In Provincia Microempresas S.A.	33,604	55,695
. In Red Link S.A.	7,028	7,028
. In BA Desarrollo S.A.	4,714	6,306
. In Prisma Medios de Pago S.A.	3,409	3,409
. Other	4,841	4,009
	227,205	368,421
2. Miscellaneous Receivables – Other		
. Advance Payments	7,498,469	3,461,597
. Adjustment Account for Pension Fund Advance	(1,865,487)	(723,989)
. Guarantee Fund – Visa Argentina	407,482	319,615
. Sundry Debtors	377,161	147,305
. Funds for Financing Own Users' Purchases Abroad - Visa Argentina S.A.	35,889	65,834
. Peso Loans to Staff	8,547	92,166
. Compensations and Balances to be Recovered from Claims	39,274	39,267
. Debtors related to Summary Proceedings pending Resolution	15,444	16,882
. Receivables and Goods, to be Received in lieu of Payment	5,027	5,971
. Other	48,950	34,040
	6,740,756	3,458,688

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3. Other Liabilities from Financial Brokerage - Other

. Liabilities from Financing of Purchases	2,759,902	2,327,546
. Miscellaneous Liabilities not subject to Minimum Cash Requirements	720,522	877,271
. Foreign Exchange Transfers pending Payment	318,858	204,228
. Update of Tax Withholdings and Collections	265,006	11,558
. Taxes on Bank Debits and Credits	153,580	102,877
. Gross Income – Collection Procedures	141,143	99,288
. Collections and Other Transactions on behalf of Third Parties	29,893	44,172
. Update of Tax Withholdings and Collections	18,375	96,390
. Pension Payment Orders Pending Settlement	109,741	362,119
. Export Collections pending Settlement	58,991	9,157
. Not Applied Proceeds – Debtors under Memorandum Accounts	19,966	18,654
. Miscellaneous Liabilities from Purchases abroad	11,836	13,300
. Other	261,990	177,821
	5,069,803	4,344,381
	12/31/2016	12/31/2015

4 Miscellaneous Liabilities – Other

. Sundry Creditors	471,190	244,773
. Taxes Payable	372,910	339,963
. Payroll and Social Security Taxes Payable	101,627	93,625
. Miscellaneous Withholdings Payable	30,782	206,655
. Advances for Sale of Assets	6,477	877
. Advance Collections	858	39
. Other	3,373	28,816
TOTAL	987,217	914,748

5. Memorandum Accounts – Control – Debit

. Items in Safekeeping	48,885,799	13,054,294
. Total Overdrafts in Pesos	1,939,824	858,117
. Items to be Debited	1,052,090	720,162
. Items for Collection	305,601	223,347
. Loans for SMEs and Micro enterprises	2,549	3,175
. Patacones - Currency Unification Program	-	2,760,523
. Other	2,759,961	2,368,188
	54,945,824	19,987,806

6. Income from Services – Other

. Commissions for Credit Card Services	4,917,605	3,606,626
. Commissions from Grupo Banco Provincia S.A. Companies	191,073	154,398
. Commission – ATM Network	187,527	136,020
. Safe Deposit Box Rental	154,870	118,878
. Commissions from Clearing Services	107,685	101,290
. Commissions on Inter-branch Cash Transactions	92,326	105,759
. Commissions on Check Management	90,003	61,424
. Commissions - Online Transfers	66,934	44,700

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. Commissions from Direct Payment System	45,040	31,300
. Maintenance Fee – Private Sector Savings Accounts	40,402	116,996
. Commissions from Drafts and Transfers	38,768	36,685
. Commissions from Salary and Wage Payments	11,292	9,970
. Commissions for Attestation of Signatures	7,365	6,706
. Commission from Pre-Allocation System	6,371	384
. Other	149,955	104,897
	6,107,216	4,636,033

12/31/2016
12/31/2015

7. Expenditure for Services – Other

. Advising Payment to Pcia. Microemp. Board of Director's Resolution 203/10	286,270	231,916
. Expenditure for Direct Marketing Actions	267,152	312,181
. Charges for Credit Card Processing	236,621	143,02
. Visa International Royalties	193,651	112,643
. Miscellaneous Operating Services	168,819	127,488
. Social Security Contribution / Income from Services	147,783	115,245
. BAPRO Customer Loyalty Program	119,678	191,089
. Delinquent Portfolio Recovery Services	27,941	4,261
. COBINPRO Peso Commissions	7,277	5,597
. Collection Services on Credit Card Debts	4,893	4,815
. Expenditure for Debit Card Services	3,847	2,218
. Services to ATM Users - Insurance -	-	35,453
. Other	48,963	17,204
	1,512,895	1,303,812

8. Miscellaneous Income – Other

. Interest on Miscellaneous Receivables	85,561	44,070
. Interest on own Capital - Sao Paulo Branch	28,867	-
. Trust Management Fees	14,896	8,468
. Legal and Judicial Fees Accrued	12,591	10,703
. Gains on Transactions with Miscellaneous Assets	12,529	9,214
. Fines and Charges for Breach of Contracts	10,225	9,462
. ATMs and Cash Surplus	10,036	7,696
. Rent	8,287	6,957
. National Social Security Administration (ANSES) – Deceased beneficiaries	1,930	-
. Recovery of depreciation of bonds to be received. - Province of Buenos Aires	-	25,821
. Other	26,046	23,237
	210,968	145,628

9. Miscellaneous Losses – Other

. Loss of Value – Bank's Retirement and Pension Fund	1,141,498	-
. Donations	102,789	69,470

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. National Social Security Administration (ANSES) – Deceased beneficiaries	94,428	123,995
. Non-Recoverable Portfolio Expenses	29,265	16,520
. Especial Contribution to the Bank’s Retirement and Pension Fund – Section 78, Law No. 13364	23,141	11,816
. Losses on Clearing and/or Adjustment of Balances	3,458	2,770
. Health and Social Services Contributions	2,868	1,991
. Loss on transactions with Bank premises and equipment and miscellaneous assets	2,498	1,648
. Discount on Mortgage Loans - Principal	1,635	1,883
. Events Detrimental to the Bank	1,468	3,764
. ATM cash shortage	1,129	822
. Other	8,876	4,901
	1,413,053	239,580

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