

BANCO PATAGONIA S.A.

MINUTES OF BOARD MEETING No. 2602 (01.30.12):

A meeting of the Board of Directors of BANCO PATAGONIA S.A. was held on January 30, 2012 at the offices located at Tte Gral Juan D. Perón 500, City of Buenos Aires. The undersigned Directors were present at the meeting. It is hereby stated for the record that all of the directors are present at the place of the meeting. Also present was Mr. Alberto Mario Tenaillon, CPA, on behalf of the Statutory Audit Committee. At 17.30 p.m. a quorum was present, and the President stated that the meeting, having been duly convened, was ready to proceed with business and discuss the following Agenda: ---

1. Consideration of Financial Statements corresponding to the Company's fiscal year beginning on January 1 and ending on December 31, 2011, the Independent Auditors' Report and the Statutory Audit Committee's Report.
2. Consideration of the Annual Report corresponding to fiscal year ended as of December 31, 2011, including the Corporate Governance Code's Report.
3. Consideration of Management Report under CNV Regulations, Chapter XXIII, 11.6.
4. Audit Committee - CNV 's Report.
5. Consideration of Financial Statements as of 12/31/11 for submission in Brazil

ITEM NO. 1: CONSIDERATION OF FINANCIAL STATEMENTS CORRESPONDING TO THE COMPANY'S FISCAL YEAR BEGINNING ON JANUARY 1 AND ENDING ON DECEMBER 31, 2011, THE INDEPENDENT AUDITORS' REPORT AND THE STATUTORY AUDIT COMMITTEE'S REPORT.

To present this item on the Agenda, the President, Mr. Jorge Guillermo Stuart Milne, informed that Banco Patagonia S.A. balance sheet corresponding to the Company's 88th fiscal year, ended on December 31, 2011, and the related statements of income, of changes in shareholders' equity and cash flows, and their equivalents, and the Consolidated Financial Statements for the fiscal year ended as of that date, with their corresponding notes and exhibits, had been distributed in advance to the Directors and Statutory Auditors, under regulations in force. The President updated the attendees that under BCRA (Central Bank of Argentina) standards, the balance sheet, statement of income, statement of changes in shareholders' equity and cash flows, and their equivalents, as of December 31, 2011, and the Exhibits that specify so, are presented with comparative balances as at end of prior year.

The President next stated that the documents to be discussed in the meeting result from the entries made on the Company's accounting books, kept in accordance with current legal regulations, and from supporting documents. Considering the above and the fact that the officers present at the meeting are familiar with the above-mentioned documents, the President proposed that transcription of said documents in the Minutes was omitted and that said documents were approved.

Extensive discussion ensued on several aspects related to the information included in the above-mentioned Financial Statements, after which the motion was unanimously approved.

The President next proposed that, within legal terms, the Call to Shareholders' Meeting could be discussed at another Board Meeting. After brief discussion, and upon motion duly made, seconded and unanimously adopted, the President's proposal was approved.-----

Next, Mr. Joao Carlos de Nobrega Pecego submits for consideration by the attendees the Independent Auditors' Report on the statements just approved. After some discussion, the Report is acknowledged and its transcription in these minutes is resolved:

"INDEPENDENT AUDITORS' REPORT

To the Directors and Shareholders of

BANCO PATAGONIA S.A.

Legal domicile: Tte. Gral. J. D. Perón 500

City of Buenos Aires

1. We have examined the accompanying balance sheet of BANCO PATAGONIA S.A. as of December 31, 2011, and the related statements of income, changes in shareholders' equity and cash Flows and their equivalent statements for the year then ended. In addition, we have audited the accompanying consolidated balance sheet of BANCO PATAGONIA S.A. and its subsidiaries as of December 31, 2011, and the related consolidated statements of income and cash flows for the year then ended, which are disclosed as supplementary information in Schedule I.
2. The Bank's Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting standards established by the BCRA (Central Bank of Argentina). This responsibility includes: designing, implementing, and maintaining an adequate internal control system so that such financial statements are free from material misstatement whether due to errors or irregularities; selecting and applying appropriate accounting policies; and making accounting

estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these financial statements as a whole based on our audit.

3. We conducted our audit in accordance with auditing standards effective in Argentina and the "Minimum standards on external audits" issued by the BCRA. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures, on a selective test basis, to obtain judgmental evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, who, to this end, assesses the risks of material misstatement of the financial statements, whether due to errors, omissions or irregularities. In making these risk assessments, the auditor considers the Bank's internal control relevant to the preparation and fair presentation of the financial statements in order to select the appropriate audit procedures in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control system in place. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Bank's Management, as well as evaluating the overall presentation of the financial statements.

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

4. As described in note 6 to the accompanying financial statements, the financial statements mentioned in the first paragraph have been prepared by the Bank in conformity with the accounting standards established by the BCRA, which differ from the professional accounting standards approved by the CPCECABA (Professional Council in Economic Sciences of the City of Buenos Aires, Argentina) in certain valuation and disclosure aspects described and quantified in such note.
5. In our opinion, the financial statements mentioned in the first paragraph, fairly present, in all material respects, the financial position of BANCO PATAGONIA S.A. and the consolidated financial position of BANCO PATAGONIA S.A. with its subsidiaries as of December 31, 2011, and the results of operations and cash flows for the year then ended, in conformity with BCRA accounting standards and, except as mentioned in the fourth paragraph, with professional accounting standards effective in the City of Buenos Aires, Argentina.
6. As to the balance sheet of BANCO PATAGONIA S.A. and the consolidated balance sheet of BANCO PATAGONIA S.A. with its subsidiaries as of December 31, 2010, and the related statements of income, changes in shareholders' equity and changes in cash flows for the year then ended, presented for comparative purposes, we report that, on February 16, 2011, we issued an audit report that included qualifications for differences between the accounting standards established by the BCRA and the professional accounting standards effective in the City of Buenos Aires, Argentina, which are detailed in note 6 to the accompanying financial statements.

7. In compliance with current legal provisions, we inform that:

- a) The financial statements mentioned in the first paragraph have been transcribed into the "Financial Statements" book and, in our opinion, were prepared, in all material respects, in conformity with the applicable BCRA standards, Argentine Business Associations Law provisions, and CNV (Argentine Securities Commission) regulations.
- b) The stand-alone financial statements of BANCO PATAGONIA S.A result from books kept, in their formal respects, in conformity with current legal requirements and regulations of B.C.R.A. and in conformity with the provisions of CNV Resolution EMI No. 4,810 dated October 21, 2008.
- c) We have performed the procedures on the prevention of money laundering and terrorist financing under the relevant professional standards issued by the Argentina Federation of Professional Councils in Economic Sciences.
- d) As of December 31, 2011, liabilities accrued in employer and employee pension contributions on behalf of the National Social Security, resulting from the Bank's accounting books amount to ARS 11,449,374, none of which was due and payable as of that date.
- e) During the fiscal year ended December 31, 2011, we billed audit services fees to the Bank, representing 99,76% of the total amount billed to the Bank on any and all accounts, 76,09% of the total amount of audit services billed to the Bank and its subsidiaries, and 75,95% of the total amount billed to the Bank and subsidiaries on any and all accounts.

City of Buenos Aires, January 30, 2012. PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.,
C.P.C.E.C.A.B.A. Vol. 1 – Fo. 13. Pablo M. Moreno, Partner, Certified Public Accountant
(U.B.A.), C.P.C.E.C.A.B.A. Vol. 164 – Fo. 235.

Next, the attending Statutory Auditor, Dr. Alberto Mario Tenaillon, on behalf of the Statutory Audit Committee, stated that after reviewing Banco Patagonia S.A. documents relative to fiscal year No. 88, ended on December 31, 2011, including the Annual Report, said Committee issued their report, as follows:

"STATUTORY AUDIT COMMITTEE'S REPORT

To the Directors and Shareholders of

BANCO PATAGONIA S.A.

Legal domicile: Tte. Gral. J. D. Perón 500

City of Buenos Aires

Dear Sirs,

Dear Sirs,

1. We have examined the accompanying inventory and balance sheet of BANCO PATAGONIA S.A. as of December 31, 2011, and the related statements of income, changes in shareholders' equity and cash Flows and their equivalent statements for the year then ended, notes 1 through 25, exhibits A through L, N and O, and Schedule I supplementing them, and the Letter to the Shareholders.
2. The Bank's Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting standards established by the BCRA (Central Bank of Argentina). This responsibility includes: designing, implementing, and maintaining an adequate internal control system so that such financial statements are free from material misstatement whether due to errors or omissions or irregularities; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Our responsibility is limited to expressing an opinion on this documentation based on the work described in the following paragraph.
3. We performed this examination in accordance with effective statutory audit rules. Such rules require that the financial statements be examined in accordance with effective auditing standards and include verifying the agreement between the documents examined and the information on corporate decisions entered in minutes, as well as the compliance of such decisions with the law and bylaws as to formal and documentary aspects. To perform our professional task on the documents mentioned in the first paragraph, we have reviewed the audit carried out by the firm Pistrelli, Henry Martin y Asociados S.R.L. in their capacity as external auditors, who applied the "Minimum standards on external audits" issued by the BCRA and auditing standards effective in Argentina, having issued their report on January 30, 2012.

An audit involves performing procedures, on a selective test basis, to obtain judgmental evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, who, to this end, assesses the risks of material misstatement of the financial statements, whether due to errors, omissions or irregularities. In making these risk assessments, the auditor considers the Bank's internal control relevant to the preparation and fair presentation of the financial statements in order to select the appropriate audit procedures in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control system in place. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Bank's Management, as well as evaluating the overall presentation of the financial statements. Since the statutory auditor is not in charge of performing a management control, the review did not extend to the business decisions and criteria from the Bank's different areas as these matters are the exclusive responsibility of the Board of Directors. We believe that the judgmental evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

4. As described in note 4 to the accompanying financial statements, the financial statements mentioned in the first paragraph have been prepared by the Bank in conformity with the accounting standards established by the BCRA, which differ from the professional accounting standards approved by the CPCECABA (Professional Council in Economic Sciences of the City of Buenos Aires) in certain valuation and disclosure aspects described and quantified in such note.
5. Based on our work and on the report dated January 30, 2012, issued by Pablo M. Moreno (partner of the firm Pistrelli, Henry Martin y Asociados S.R.L.), in our opinion, the financial statements mentioned in the first paragraph, present fairly, in all material respects, the financial position of BANCO PATAGONIA S.A. as of December 31, 2011, and the results of its operations and its cash flows for the year then ended, in conformity with BCRA standards and, except for the effect of what is mentioned in fourth paragraph, with professional accounting standards effective in the City of Buenos Aires, Argentina.
6. In compliance with current legal requirements, we further report that:
 - a) In the exercise of the legality control within our competence, during the fiscal year ended December 31, 2011, we applied the remaining procedures described in section 294, Law No. 19,550, which we deemed necessary based on the circumstances, and we have no observations to make in this regard.
 - b) The financial statements of BANCO PATAGONIA S.A. mentioned in paragraph 1 result from books kept, in their formal respects, in conformity with current regulations, BCRA regulations, the provisions of CNV (Argentine Securities Commission) Resolution EMI No. 4,810 dated October 21, 2008, and the inventory has been transcribed into the "Inventory" book.
 - c) We have reviewed the Board of Directors' Letter to the Shareholders on which we have no findings as regards our area of competence, being subsequent event assertions the exclusive responsibility of the Board of Directors.

- d) We have performed the procedures on the prevention of money laundering and terrorist financing under the relevant professional standards issued by the Argentina Federation of Professional Councils in Economic Sciences.
- e) In conformity with CNV General Resolution No. 340 and supplementary standards on the independence of the external auditor and on the quality of the audit procedures applied by such auditor and the Bank's accounting policies, the auditor's report mentioned in the fifth paragraph includes a representation that auditing standards effective in Argentina have been applied; these standards include independence requirements and include no qualifications in connection with the application of such standards and professional accounting standards effective in the City of Buenos Aires, Argentina, considering the issues disclosed in the fourth paragraph.

City of Buenos Aires, January 30, 2012. On behalf of the Statutory Audit Committee: Alberto M. Tenaillon - Statutory Auditor.

ITEM NO. 2: CONSIDERATION OF THE LETTER TO THE SHAREHOLDERS CORRESPONDING TO THE FINANCIAL YEAR ENDED ON DECEMBER 31, 2011, INCLUDING CORPORATE GOVERNANCE CODE'S REPORT:

The President then explained that the Financial Statements corresponding to the 88th fiscal year ended on 12.31.2011 having been approved, the Letter to the Shareholders for the year ended as of that date should be considered.

Therefore, the President presented the Letter to the Shareholders to the Board for consideration and stated that the Directors and Statutory Auditors were familiar with the contents thereof since the document had been distributed in advance. Next, the President proposed that the Letter to the Shareholders be considered as read and approved, and fully included in the Minutes of the meeting.

After extensive discussion, the Letter to the Shareholders was unanimously approved as per the following text:

■ **2011 ANNUAL REPORT**

To Shareholders,

In compliance with legal and statutory provisions in force, the Board of Directors of **Banco Patagonia S.A.** submits the documentation corresponding to the 88th corporate financial year ending on December 31, 2011 to the Shareholders for their consideration, which consists of the Annual Report, Balance Sheet, Profit and Loss Statement, Statement of Changes in Shareholders' Equity, Statement of Cash Flow and Cash Flow Equivalents, the complementary notes, exhibits and Table I, Profit Distribution Profit, Report of the Independent Auditors and Report of the Statutory Audit Committee.

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1 □ ECONOMIC AND FINANCIAL SYSTEM CONTEXT

□ **Economic Perspective of the Argentine Republic**

The year 2011 developed within a difficult international context where the weak US economy, the financial and fiscal problems in the Eurozone and the various social claims fueled a very volatile and complex year. The US economy was trying not to fall into a depression after the serious 2008 recession. Growth indicators showed no positive signs until the last quarter of 2011. The Federal Reserve kept on maintaining the benchmark interest rates at a very low level (0% - 0.25%) during a long period. On the other hand, the list of European countries in trouble kept on growing: Spain and Italy (which now have new administrations that have implemented tight fiscal measures) joined the list topped by Greece, Portugal and Ireland. Spain also showed a historic peak of unemployment: over 4.4 million people (22% of the labor force).

Even though at some point in the year the figures of the Chinese economy made the markets nervous, China continued being the driver of the global economy, where the developing countries also played a leading role. Brazil closed the year as the sixth largest economy, displacing Great Britain. The excellent performance of Argentina's major trade partner helped break the historic record of automobile manufacturing, resulting in a 7% increase in auto loans in the Argentine financial system.

Even when the price of commodities has fallen due to the international conditions described above, commodities continued being the main source of foreign currency and tax resources for Argentina. And despite the good level of exports, the recovery of the domestic economy resulted in a much higher increase of imports. Consequently, the government took some individual and group protectionist measures with its partners at the Mercosur trading block. These measures paved the way for another year of trade surplus (approximately USD 10.9 billion), with a year over year increase in exports of 25%. However, the Central Bank of the Republic of Argentina (BCRA) implemented tighter foreign exchange controls to offset the high demand for US dollars.

The ruling party won the primaries held in August with more than 50% of the votes, and even when there was no uncertainty regarding the result of the presidential election of October, the outflow of US dollars continued and went up between September and November. Taking also into account that public debt was paid with international reserves, the BCRA purchased a net amount of USD 3.335 billion in 2011, and international reserves totaled USD 46.319 billion as of year-end, down from the USD 52.145 billion of December 2010. .

In October the administration won the presidential elections with 54% of the votes and regained majority in both houses of the Congress, paving the way for the approval of several laws that have been delayed by the Legislative Power.

Domestic consumption was once again the driver of the economic model and so the Government is now focused on fiscal accounts that are not as sound as in recent years. The administration had to review and redirect subsidies and pay attention to the use of public spending. The market looked favorably upon these measures, as well as upon the progress in the negotiations regarding the debt with the Paris Club, which is a key issue to have access to international lending.

□ **The Argentine Financial System**

Just as in 2010, the implementation of the Bicentennial Fund authorized the use of international reserves to pay public debt, and the monetary authority had to maintain a strong expansionary policy to keep up with the administration's idea of promoting consumption as the strongest pillar of economic growth. Unlike last year, the monetary targets were met as designed in the original program. Total M2 and Private M2 (means of payment) went up 29% and 30.7%, respectively, from last year – only 1.1% and 1.5% above the projections in the base scenario and away from the forecast band ceiling.

In 2011, the stock of BCRA bills and notes fell to ARS 66.347 billion from ARS 70.578 billion. The need to neutralize the higher demand for US dollars made the rate on 30 to 59-day time deposits for amounts higher

than ARS 1 million (BADLAR) charged by private banks climb to 20% in some days of October and close 2011 at 17.19%, after having closed 2010 at 11.25%.

In 2011 total deposits in pesos increased by 28.7%, broken down in 29.9% for private sector deposits and 26.1% for public sector deposits. Argentine peso-denominated time deposits made by the private sector went up 34.4%, while sight accounts grew by 27.2% during the year. The most dynamic credit facilities were consumer credits, which rose by 47.7% in credit cards, 74.5% in auto loans and 46.3% in personal loans. Working capital financing also exhibited a dramatic improvement in all its lines (authorized overdrafts rose by 43.8% in the year).

In turn, the benchmark exchange rate depreciated by 8.23%, closing the year at ARS 4.3032 per dollar (ARS 3.9758 at the close of 2010). BCRA intervention made it possible to minimize the fluctuations that marked the foreign exchange world movement in 2011.

Taking into account that the political uncertainty of an election year has been cleared out and that the domestic market will continue being mostly focused on consumption, the monetary and financial variables are likely to keep on improving.

The stabilization and return of Argentina to the international financial community are still pending objectives. The government is working to achieve them during 2012, so as to have an additional source of financing. At Banco Patagonia, we will continue working to strengthen up the company within our financial system, just as we have been doing in the last years.

2 □ HISTORY

The Controlling Shareholders launched into the banking business upon the creation of **Banco Mildesa** in 1988. **Banco Patagonia** is a continuing party of a series of long-established banks in Argentina such as **Banco de Río Negro**, a leader in the Patagonian region, **Banco Mercantil Argentino**, a pioneer in payroll services, **Banco Caja de Ahorro**, the first institution to incorporate the insurance business into the banking sector — these two last banks were merged with **Banco Sudameris Argentina**—, and **Lloyds TSB Bank** plc Argentina branch, founded more than 140 years ago. The legacies of these and other institutions that are currently a part of our bank represent an asset of great value to our bank and a distinguishing competitive feature.

In 2010, Banco Patagonia acquired **GPAT Compañía Financiera S.A.**, a company incorporated under the laws of Argentina and authorized to act as a financial entity, specialized in wholesale and retail financing for the acquisition of new automobiles, both to dealers -especially in the General Motors network in Argentina– and private customers.

Finally, in 2011, 58.96% of the corporate capital of **Banco Patagonia** was transferred to Banco do Brasil, the aim being to continue business as one of the main banks in the Argentine Financial System.

Summary

- 1976** The Bank's Controlling Shareholders begin doing business in the Argentine financial system through different companies specialized in the stock, OTC and exchange markets.
- 1979** Controlling Shareholders establish Cambio Mildesa.
- 1987** Controlling Shareholders acquire Finagen Compañía Financiera, owned by Volkswagen Argentina.
- 1988** Finagen Compañía Financiera merges with Cambio Mildesa to become Banco Mildesa.
- 1996** Banco Mildesa acquires 85% of the corporate capital of Banco de Río Negro.
- 1997** Banco Mildesa and Banco de Río Negro merge, keeping the latter's name.
- 1998** Banco de Río Negro acquires nine branches of former Banco Almafuerde, and a branch of former Banco Mayo.
- 2000** Banco de Río Negro changes its trade name to **Banco Patagonia**.
- 2001** **Banco Patagonia** (Uruguay) S.A.I.F.E., a subsidiary of the Bank, begins doing business in Uruguay.
- 2003** **Banco Patagonia** merges with Banco Sudameris Argentina and the latter, as the surviving institution, changes its trade name to **Banco Patagonia Sudameris**. In 2000, Banco Sudameris Argentina had acquired Banco Caja de Ahorro. In 1999, Banco Caja de Ahorro had merged with Banco Mercantil Argentino.
- 2004** **Banco Patagonia Sudameris** takes on the assets, liabilities and staff of Lloyds TSB Bank plc Argentina Branch, which had taken in Banco de Tres Arroyos in 1998. Banco Patagonia Sudameris changes its name to **Banco Patagonia**.

2007 **Banco Patagonia** starts listing in the Buenos Aires and Sao Paulo Stock Exchanges, thus becoming the first company not doing business in Brazil that goes public in the San Paulo Stock Exchange (BOVESPA). That event set a precedent for fostering regional development of Argentine companies in MERCOSUR.

2010 The majority shareholders of **Banco Patagonia** agreed to sell 51% of the outstanding corporate capital and votes to Banco do Brasil.

Banco Patagonia acquires 99% of the stock capital of **GPAT Compañía Financiera S.A.** (former GMAC Compañía Financiera S.A.) in order to enlarge its business.

2011 In April, the stock purchase agreement between **Banco Patagonia** and Banco do Brasil was executed, and 51% of the outstanding corporate capital and votes were transferred to the latter.

Pursuant to Argentine regulations, Banco do Brasil launched the Mandatory Public Offering in Argentina on all the remaining shares of **Banco Patagonia S.A.**

In October, the offering was settled and the new shareholding structure of **Banco Patagonia S.A.** became as follows: Banco do Brasil S.A., 58.9633%; Selling Shareholders, 21.4127%; Province of Rio Negro, 3.1656%; and Free Float, 16.4584%.

3 BANK MANAGEMENT

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Projected trading policy and relevant aspects of business, financial, and investment planning

Over the years, the Bank has been keeping an outstanding performance in the Argentine financial system, ranking eighth in terms of aggregate deposits, total loans, and shareholders' equity among private banks, according to the publication released by the Argentine Central Bank on November 30, 2011.

The Bank has a nationwide physical distribution network which allows meeting its customers' needs and attracting potential customers. It is one of the few institutions that maintains a physical presence in all Argentine provinces. Its distribution network is balanced between the Buenos Aires Metropolitan Area and the provinces of our country.

Banco Patagonia operates as a Universal Bank with significant presence in the segments of individuals, micro-, small- and medium-sized companies. Through a wide distribution network, the Bank efficiently offers a varied range of products and services to more than 813,000 active customers.

Among the most distinctive features, the Bank's sound financial standing and a wide range of financial and capital market products are to be highlighted, making it one of the leading institutions in the structuring, placing and managing of financial trusts with public offering.

When it comes to strategy, the Bank has focused on providing loan service to medium-income individuals from its Payroll Services customer base, and on small- and medium-sized companies, segments that offer significant business growing opportunities, as well and on the recent addition of Corporate Banking customers, through the offer of a relevant number of products and services.

■ Outlook for 2012

The aims for next year include continuing the consolidation as one of the leading banks, orienting commercial efforts to all segments of customers —individuals, micro- and small-sized companies and large companies and corporations— to perform lending and borrowing transactions and render services intended to:

- continue with the expansion of the distribution network in order to provide more personalized services to our customer portfolio;
- consolidate the marketing of financial products and services to Brazilian companies doing business in Argentina and to multinational companies of Argentine origin with commercial relations in Brazil, mainly through the Corporate Banking Executive Office;
- maintain the quality of services offered to our customers, in order to build up existing customers' loyalty;
- follow-up on market opportunities in order to win new customers and enlarge our present product portfolio.

Regarding the economic and financial strategy, the focus is to keep the Bank's position as one of the most sound and profitable banks in the Financial System, with emphasis on:

- a prudent management of risk policies, in order that the loan portfolio may grow, minimizing the non-performing portfolio and, consequently, the need to constitute provisions;

- undertaking an efficient management of resources and maintaining an adequate expense control by deploying, throughout the organization, result-based management criteria;
- maintaining a diversified, stable, and low-cost funding structure, favoring the deposits of individuals, companies and large corporations as the main funding source.

□ **Aspects related to the Bank's organization, decision-making, and internal control system**

The main responsibilities and duties of the Board of Directors, the Statutory Audit Committee, the various Bank committees, and senior Management Offices are described below. The components of the internal control system implemented by the Bank are also described.

The Bank's Board of Directors

The Board is entrusted with the Bank's administration and has the power to take any decisions related to this end. Thus, the Board is responsible for the execution of resolutions adopted by the Shareholders' Meetings and for the performance of activities specially delegated into it by the shareholders.

Closing of the transaction with Banco do Brasil involved certain changes in the Board's composition, which is now composed of nine regular Directors and three alternate Directors, one Director representing class "A" shares and eight members representing class "B" shares.

Alternate directors may replace any member representing class "B" shares. The following table includes information on the members of the Bank's Board of Directors, whose terms of office will expire on the date of the Shareholders' Meeting that will consider the financial year ended on December 31, 2013:

Name	Position	Elected in ¹
Jorge Guillermo Stuart Milne	President	2011
João Carlos de Nobrega Pecego	Vice-President	2011
Claudemir Andreo Alledo	Vice-President	2011
Aldemir Bendine	Vice-President	2011
Allan Simões Toledo	Vice-President	2011
Alexandre Corrêa Abreu	Vice-President	2011
Marcos Daniel Croceri	Regular Director	2011
Juan Domingo Mazzón	Regular Director	2011
Carlos Alberto Giovanelli	Regular Director	2011
Sandro Kohler Marcondes	Alternate Director	2011
Valmir Pedro Rossi	Alternate Director	2011
Admilson Monteiro García	Alternate Director	2011

Statutory Audit Committee

The Bank's By-laws establish a Statutory Audit Committee composed of three regular statutory auditors and three alternate statutory auditors, appointed by the Regular Shareholders' Meeting for the term of one financial year.

The following table includes information on the members of the Bank's Statutory Audit Committee, whose terms of office will expire on the date of the Shareholders' Meeting that will consider the financial year ended on December 31, 2011:

Name	Position	Appointed in¹
Alberto Mario Tenaillon	Regular Statutory Auditor	2011
César Iraola	Regular Statutory Auditor	2011
María Lucía Denevi Artola	Regular Statutory Auditor	2011
Daniel Barbato	Alternate Statutory Auditor	2011
Cristina Tapia Sasot	Alternate Statutory Auditor	2011
Andrea Nora Rey	Alternate Statutory Auditor	2011

Bank Committees

In order to maintain a proper organization, control and follow-up on the activities performed by the Bank, the entity has created several Committees which operate under the supervision of the Board of Directors and report to the Bank's President and Vice-presidents. The following Committees are governed by a control authority:

¹ Appointed by the Shareholders' Meeting held on April 27, 2011.

Audit Committee - CNV- it is composed of three regular directors; two of them must be independent directors, pursuant to the rules of the CNV (the Argentine Securities Commission). All members of the Audit Committee, appointed by the Board of Directors in its meeting held on April 28, 2011, were elected for a one-year term of office (and will remain in office until the appointment of their replacement) and can be reelected.

According to Decree No. 677/2001, the powers and duties of the Bank Audit Committee -CNV- include the following: (i) issuance of an opinion on the proposals made by the Board of Directors on appointment of the Bank's external auditors and controlling their status as independent members; (ii) supervision of the operation of the internal control system as well as the administrative-accounting system of the Bank; (iii) supervision of compliance with the policies related to information on risk management of the Bank; and (iv) issuance of a justified opinion as regards the transactions made between Related Parties or other transactions that may cause conflict of interests.

Every year the Audit Committee -CNV- must prepare an action plan for the financial year, to be approved by the Board of Directors and the Statutory Audit Committee.

Audit Committee -BCRA- This committee is in charge of taking the necessary steps to secure proper operation of the Bank's internal control systems and procedures, pursuant to the guidelines defined by the Board of Directors. Furthermore, the responsibilities of this Committee include approving the Internal Audit Annual Plan, reviewing its compliance level and analyzing the Bank's annual and quarterly financial statements, the external auditors' reports, any related financial information, and the Statutory Audit Committee's report.

IT Committee: it is in charge of submitting to the Board of Directors the proposal about, and implementation of, the IT policy for development of the Bank business, and assessing the needs of IT, micro IT, and communication systems meeting the commercial strategy of the Bank, in order to secure the provision of information and services necessary for operation and management.

IT Security Committee: it is responsible for submission to the Board of Directors of policies on IT security and monitoring their enforcement. This committee is also in charge of the preparation of proposals to the Board of Directors with regard to preventive measures oriented to minimizing the risks related to IT security or to corrective actions, if applicable.

Committee on Control and Prevention of Money Laundering and Terrorism Financing: It is in charge of planning, coordinating and securing compliance with the policies established by the Board of Directors in this regard. Moreover, the Committee provides the Bank with the necessary assistance regarding the non-existence or timely detection of transactions that may suggest money laundering from illegal activities, pursuant to the Argentine Central Bank and the Financial Intelligence Unit ("FIU") rules.

Operational Risk Committee: its aim is to guarantee that processes and procedures are in place for each business unit, oriented to the operational risk management of products, activities, processes, and systems of the financial institution, by securing that the managerial surveillance process adapts to inherent risks. Every six months at least, it must report to the Board of Directors on the main aspects related to operational risk management.

Ethics Committee: its role is to decide on issues related to the construction and scope of the Code of Ethics, which establishes the different policies related to all Bank members' ethical behavior.

Quality Committee: it is responsible for the gradual and progressive implementation of the "quality management system", pursuant to the provisions of ISO 9001:2000 international standard, in accordance with the guidelines established by the Board of Directors on this matter. Some of its duties include preparing and performing the follow-up of the strategic quality plan, approving the quality goals of each product or service offered by the Bank, approving quality records and indicators to be used, preparing annual reports on quality, defining the products or services to be verified for quality testing, and selecting the certifying entity.

Global Risk Committee: the main purpose of this Committee is proposing to the Board the strategies to manage market, rate, liquidity and credit risks, as well as to establish the global exposure limits to said risks. Besides, the Committee will be informed of the positions on each risk and compliance with policies. The scope of its duties will extend to the Bank and its affiliated companies.

The Bank has established other Committees, namely:

Committee on Corporate Business: with the purpose of analyzing and approving the granting of credit facilities to Corporate clients and of monitoring the management of this segment.

Committee on Credit Facilities to Large Companies – Superior and Enlarged Superior: responsible for analyzing and approving loan operations in excess of 0.5% and up to 1% of RPC, or up to 4% of RPC if guaranteed.

Committee on Credit Facilities – Large Companies Senior: responsible for analyzing and approving loan operations in excess of ARS 6 million, not exceeding 0.5% of RPC.

Committee on Credit Facilities to Financial Institutions: it establishes the limit for loan operations with institutions in the financial system up to the amount of ARS 30 million.

Committee on Public Sector Credit: this Committee analyzes and approves the granting of credit facilities to customers belonging to the national, provincial or municipal public sector.

Executive Committee: responsible for analyzing and approving the granting of credit facilities as submitted for consideration by the Bank's committees and monitoring the management of this segment.

Business Committee: it analyzes commercial proposals, defines commercial strategies to be adopted by the various segments and analyzes the strengths and weaknesses of potential new products.

Capital Market Committee: its role is to assess all capital market transactions with current or potential customers requesting services and/or loans, through transactions of price advances, placement or firm commitment underwriting.

Finance Committee: it is in charge of issues related to the management of the Bank's financial assets and liabilities.

Committee on Non-Performing Corporate Banking: its duty is to evaluate Corporate Banking delinquent customers, define the applicable procedure and follow-up.

Senior Management

The following Area Assistant General Managers report to the Board of Directors:

■ ADMINISTRATION AND FINANCE

This area is responsible for the Bank's general administration and financial resources. The area is subdivided into Administration, Finance, Public Sector, Private Banking and Accountancy.

■ TRANSACTIONS AND TECHNOLOGY

This area is responsible for the administration of the Bank's operating resources and is in charge of the corresponding processes. It is subdivided into Operative Means, Technology and Systems, Architecture and Maintenance, Credits and Taxes.

■ RETAILER TRADING

In charge of the administration of Retail Banking trade resources. It is subdivided into Individuals and Network and Distribution.

■ CORPORATE TRADING

This area is responsible for the administration of trade resources of the Companies Segment. It is subdivided into Corporate Banking and Corporate and Transactional Products.

The following areas report directly to the Board of Directors: Internal Audit Management, Organizational Human Resources Executive Management, Legal Affairs Executive Management, Management Control and Special Projects Executive Office, Risk Management Executive Office, IT Security and IT Assets Protection Executive Office, Corporate Banking and Capital Market Executive Office, and Executive Secretariat Office.

Description of the Bank's internal control system

Internal control consists of five interrelated components. Additional details on them are provided below:

Control Environment

Control environment establishes the Bank's operating method and influences on the control awareness of its employees. Some of the elements that make up this control environment include integrity, ethical values, and qualifications of the Bank's staff; the Management's style and operating methods; the way the Management assigns powers and duties, organizes and trains its staff; and the attention and guidance provided by the Board of Directors.

Risk Assessment

The Bank, by virtue of its operation, faces many risks from external and internal sources that must be assessed. Risk assessment refers to the procedures and mechanisms established by the Bank for the identification and analysis of significant risks derived from changes in the economic, financial, regulatory, and operating conditions that have an impact on the achievement of the Bank's business goals.

Control Activities

Control activities are the policies and procedures that help secure the execution of the guidelines developed by Management. This implies taking the necessary actions to face the risks involved in the achievement of the Bank's goals. Control activities are performed throughout the Bank, i.e., at all levels and departments. They include activities such as: approvals, authorizations, verifications, reconciliations, operating performance reviews, assets security, and task segregation.

The Bank has written policies and procedures in place about its main processes and transactions, either in hard copies (handbooks of organization and procedure) or on electronic means (Intranet), making them available to the whole staff through the Organization and Processes Area.

Information and Communication

This control focuses on the kind and quality of the information generated by the Bank, which must be identified, captured, and disclosed properly and timely so that the relevant staff may comply with their duties. This information refers to internally generated data and also to information related to external affairs. Both are necessary for a proper decision-making process and the filing of reports with third parties.

Monitoring

The internal control system is monitored through a process that assesses the system performance quality over the course of time. This is achieved by monitoring activities under way, by separate assessments or through a combination of both.

 Dividend Policy**Profit Distribution**

The declaration, amount and payment of dividends are established by the vote of a majority of shareholders in a Regular Shareholders' Meeting, normally on the basis of the proposal submitted by the Bank's Board of Directors.

The Bank has paid cash dividends in the last seven financial years and it is the Bank's policy that the Board of Directors proposes to the Shareholders' Meeting distribution of 50% of the net realized income of the year as dividend, to be paid in cash after deduction of any items mentioned in the by-laws, taking into account the income for the year, the Bank's financial standing at the time, its liquidity requirements and other factors the Board and Shareholders may deem relevant, securing the Bank's credit standing.

The remaining amount that is not allocated to any reserve shall be posted to the retained earnings account, to distribution of stock dividends or to other ends, to be timely proposed by the Board and approved by the Shareholders' Meeting.

The following table shows the cash dividends paid to the Bank's shareholders for the financial years ended as of December 2004, 2005, 2006, 2007, 2008, 2009, and 2010.

Year	Dividends per outstanding share (in ARS)	Total payment of dividends (in ARS thousands)	Percentage of profits
2004	0.0250	10,000	11.02%
2005	0.1140	50,000	21.32%
2006	0.1490	100,000	36.58%
2007	0.0890	66,500	50.11%
2008	0.1823	133,373	50.00%
2009	0.3120	224,413	50.00%
2010	0.3347	240,702	50.00%

Finally, on January 27, 2011, the BCRA issued Communiqué "A" 5273, which amended the rules on profit distribution, establishing that the maximum amount to be distributed may not exceed any surplus of the minimum stock capital payment, considering, for this purpose only, a 75% incremental adjustment to the requirements and deducting the above-mentioned adjustments.

□ Compensation Policy for the Board of Directors and for Executive Offices

Pursuant to the provisions of section 9 of the By-laws, Directors' fees are fixed by the Shareholders' Meeting. When deciding such fees, the responsibilities, time devoted to duties, experience and professional reputation, and value of the services rendered by the Directors for the performance of the bank in the market, are taken into account. At present, no Director holds any executive position in the Bank, so no Director receives any other kind of compensation, and it is not the Bank's policy to grant any equity interest in the Bank by way of compensation.

As regards managers' compensations, it should be mentioned that the Bank pays variable compensations according to compensations for similar positions in the market, the officers' performance and their professional development, and the profits/losses obtained for the pertaining financial year. During the 2011 financial year, provisions were constituted to meet the payment of such variable compensations.

□ RETAIL COMMERCIAL AREA

This area is in charge of the administration of Retail Banking trade resources.

■ NETWORK AND DISTRIBUTION

- Branch Network
- Electronic Channels
- Alternative Sale Channels

Branch Network

The Branch Network keeps growing in accordance with the business plan and the personalized service model which is a distinctive feature of business management. Currently, the Branch Network is made up of 172 customer desks all over the country, managed by sixteen Regional Managers.

A new management model was established in October 2011, consisting of 16 Comprehensive Regional Managers and 150 Comprehensive Branch Managers working for the various regions (Alto Valle, Austral, Barracas, Buenos Aires Sur, Cordillera, Córdoba, Cuyo, Macrocentro, Microcentro, NEA, NOA, Oeste, Panamericana, Rosario, Vicente López, Viedma).

It is a key objective to expand the presence of the Bank in strategic markets, which will allow the bank to become closer to customers and to establish new commercial relationships.

A branch, defined as a Comprehensive Management Unit, is the channel through which business is developed and combined in accordance with each customer segment. A Comprehensive Manager is the natural leader and drives the growth of each of the business segments existing in the Bank, such as Individuals, SMEs, Companies and Finance.

In 2011, expansion of the Network was the product of the opening of the following branches: Avenida 44 (La Plata), Paso de los Libres (Corrientes), Catalinas (City of Buenos Aires), San Rafael (Mendoza) and General Pico (La Pampa). Also, the Honda and Puerto Madero customer service centers were established. At present,

work is in course to open, in the first quarter of 2012, new customer service centers at Cerrito, Tribunales, Venado Tuerto, Villa María, Lujan de Cuyo, Pacheco, Lujan and Salta II.

The network employs 1,760 individuals, who play commercial and operative roles and apply the service model oriented to relationship management as a business developer. The employees' work is supported by a strong permanent training plan.

As in previous years, and as a definition of the Business Model, the growth and development of human resources working for the trading platforms and back-office of each branch is strategic. The employees took part in the training programs defined for each role, which contributed to fill key vacant positions, such as Branch Managers, business executives and administrative positions, thus favoring the internal promotion process. Training was provided by means of classroom and remote workshops through a modern e-learning platform.

During the year, safety screens were set up in front of cashiers at all branches, in accordance with BCRA regulations. The Bariloche Onelli branch was transferred to another building. Several branches and central offices were enlarged and remodeled. Furthermore, the layout of some customer desks was adapted in order to add new services in accordance with the customers' needs and to increase the services offered, amongst them, safe boxes and electronic channels. Nineteen new Self-Service Terminals (SSTs) were installed.

Thirty-five additional ATMs were installed and 47 units were replaced. As every year, preventive and corrective maintenance tasks were performed in order to keep the facilities in good working conditions.

As in previous years, the commercial activities were supported with the organization of local events, Regional Economic Seminars and sports activities, such as golf tournaments, the Chevrolet Marathon or the TC2000 Motorsport, of which the Bank is the main sponsor.

As of December 2011, the Branch Network had a total of 172 customer desks, with 399 ATMs and 191 Self-Service Terminals, distributed as follows:

- 147 Branches;
- 25 Customer Service Centers (including 3 temporary Customer Service Centers);
- 191 ATMs in branches;
- 96 ATMs in other locations.

□ **Goals for 2012**

- To continue with the Branch Network expansion through the opening of new customer desks in places which are considered key markets for business development, as well as the detection of new potential locations oriented to future growth.
- To continue working towards the formation of high-performance teams, developing training programs that lend the employees the tools required to maintain high quality standards of customer service, maximizing the channel's profitability and generating personal and professional satisfaction.
- To deepen the Business Comprehensive Management Model focused on the customer, which leads to an increased business volume and profitability from current customers, as well as to winning new clients with emphasis on a distinctive customer service quality.

Electronic Channels

As in previous years, the degree of utilization of these means on the part of customers showed an upward trend.

At present, we have multiple channels for customer service; transactions and sales designed to meet the needs of both individuals and companies. These channels include:

- the Patagonia 24 ATM Network;
- self-service terminals;
- the Patagonia on-line telephone banking;
- the Patagonia e-bank Internet banking service;
- Mobile phone banking, to perform banking operations through a mobile device.

Patagonia 24 ATMs

By the end of 2011, the Patagonia 24 ATM network was composed of 399 ATMs, covering not only the Branch Network but also strategic locations, distributed by geographical areas as follows:

- 106 in the City of Buenos Aires;
- 54 in Great Buenos Aires;
- 239 in the provinces.

As a result of the installation of new facilities and technological updates, in 2011 the Bank's ATM network grew by 14% as compared to the previous year.

Nineteen new ATMs were added in neutral locations and in Customer Desks. Some of them are Rawson (Chubut), Puerto Madero (Federal Capital City), Honda Motors (Buenos Aires), Ramos Mexía (Río Negro), Sierra Colorada (Río Negro), Plottier (Neuquén), Chichinales (Río Negro), Dirección Nacional de Migraciones (Federal Capital City). Moreover, thirty-seven additional ATMs were installed both at existing and new branches.

This expansion process will continue into 2012, with the replacement of a significant part of the installed ATMs and with the installation of new ones, both in zones where the Bank has no presence whatsoever and in branches with a high level of demand for transactions.

As part of the commercial activities leading to consolidating our presence in touristic areas, in order to facilitate our customers' habitual operations on holidays, Patagonia 24 ATMs were installed at Cerro Catedral, near the city of Bariloche, and in the summer season in Las Grutas (Río Negro) and Villa Gesell (Buenos Aires),

Self-Service Terminals (SST)

In order to improve the offer of electronic services and the quality of customer service, in 2011 the Bank went on with an ambitious plan for the installation of self-service terminals. As of December 2011, 191 SSTs had been installed in 137 branches.

Service improvement was evident as more than 230,000 deposit and credit card payment transactions were carried out in the lobbies of the Bank's branches. In addition, these transactions were most required during the branch non-working hours, the Bank being one of the few entities which offers these services during this off-time.

Also to be noted, in 2011 the immediate cash deposit function was set into operation, thus contributing to increase use of the SSTs due to fast and convenient service. This was made possible through the incorporation of state-of-the-art technology that enables a note recognition feature at the time of the deposit.

Patagonia e-bank

Access to the transactional channels Personal E-banking and Corporate E-banking is gained through the website www.bancopatagonia.com, the contents of which are oriented to an easy access to the Bank's products, news and benefits.

In this year, the Bank recorded over 180,000 active customers in this channel, representing a 30% growth as compared to 2010. As in previous years, the customers' most valued transactions were transfers and payment of taxes and bills, which increased by 45% as compared to 2010.

Moreover, the types of transactions that can be performed through this channel have diversified, adding new value-added operations, with emphasis on the possibility to receive credit card and account statements by e-mail.

Patagonia Mobile

This service was launched in May 2007 under the name of Banelco Móvil and a version specially customized for the Bank was implemented in 2010. In 2011, the number of users grew at a fast pace.

It is a distinctive service by which customers can make queries, pay bills, and order money transfers easily and quickly through their mobile phones, at any time and from any place.

Alternative Sale Channels

Sales Force

In 2011 a new threshold was reached as regards consolidation of the Sales Force as the Bank's distribution channel. The volume of Personal Loans doubled when compared with 2010 and the marketing of Loans under Decree No. 691/2000 became more professional.

The Sales Rep team focused on marketing products at government agencies, offices of the security forces and private companies, capitalizing on the commercial actions proposed by the bank. As a result of the intensive training in selling techniques and processes provided in 2010 and the follow-up courses given in 2011, cross-selling strengthened at all levels in all lines of business.

Call Center (TCC)

Patagonia Investment Center

In 2011 the Investment Center celebrated its fourth anniversary growing 20% in deposits from last year. A significant number of clients chose the Investment Center to place time deposits without visiting the Bank's branches. As of year-end, over 11% of all time deposits under Individuals Banking had been placed through the Investment Center.

Telemarketing

This channel continued increasing its share in sales of Personal Loans when compared with 2010. Its accumulated annual share in 2011 totaled 13% over the total personal loans granted by the Bank, accounting for a 70% YoY increase in terms of volume.

We also implemented an immediate loan settlement process for loans closed over the telephone, which made the share of these loans reach 10% over the total volume of Personal Loans in just five months.

Total sales of transactional products (credit cards, additional credit cards, packages) went up 12% from 2010.

Patagonia On Line

In 2011 Telephone Banking answered queries, initiated some proceedings, responded to claims and started serving Club Patagonia from mid-year. Additionally, it continued offering Insurance coverage. The office received 8 million calls that translated into 9 million transactions and clients accepted 64,000 insurance policies.

The new Technological Platform incorporated the reception and response of all contacts made through the Internet. In 2012, it will be ready to serve any user contacting the Bank through other means.

■ INDIVIDUALS

In 2011, the axis of the business model of Retail Banking was to strengthen the relationship with clients, working on the analysis and understanding of the needs of each segment and on the design of differentiating proposals to gain the expected competitive advantage.

To consolidate the "client vision", we worked on each of the stages of the commercial process, focusing on the growth of the business and on the quality of the service. To that effect, new value proposals were designed and supplemented with products specific to each segment.

High Income clients received the new Plus Premium product, an exclusive service that included the launch of the Visa Platinum card, special benefits in the most valued consumption lines and preferential conditions for loans and investments. .

A new benefits program was implemented for young people through the Patagonia Universitaria product, to provide easy access to financial services and establish the first contact with the Bank.

We launched a Plan for the Solicitation and Loyalty of Payroll Services Agreements with a different proposal for each kind of company.

The lending policy was redesigned to optimize the relationship with each client. The new policy and the intensive use of the mass rating tools resulted in a 23% increase in the number of eligible clients and more assistance available per customer.

New models to forecast buying trends were developed to enrich any sale action and promotion campaign, as well as drop trends to formulate client attraction and loyalty programs.

Certain transactions are now referred to electronic channels to improve the efficiency in Customer Service and to be in line with environmental care.

The sale of loans through ATMs, Home Banking and Telephone Banking was encouraged. Online credit card statements were implemented and a campaign was launched to promote the subscription to electronic account statements - a service that has been available for a while. The placement of time deposits through Home Banking and the Investment Center was also encouraged.

The Client Loyalty strategy was strengthened and an agreement was signed with Gol Linhas Aéreas. As a result of this strategic alliance, Club Patagonia may offer its clients the possibility of redeeming their points and gaining miles under the Smiles Program, to fly anywhere around the world.

Along 2011, Personal Banking increased its Loans by 53%. This growth was mainly driven by the placement of Personal Loans, sales of which exceeded by 67% those recorded in 2010. Deposits in this segment grew by 32%, with a strong influence of Savings Accounts, the core of the Payroll Services Segment.

Transactional Products

Credit and Debit Cards

Purchases with credit cards went up 54%, measured in Argentine Pesos, when compared with the same month of the previous year, while purchases with debit cards increased 44%. .

The sale of credit cards and additional credit cards under Retail Banking went up 9% and 15%, respectively, from 2010.

The launch of the Visa Platinum credit card was among the goals for 2011. It is included in the Plus Premium service offered to the High Income segment and upgraded the value proposal for the segment and put the offering of Banco Patagonia in line with the market's. .

❑ **Goals for 2012**

- To launch the MasterCard Black credit card.
- To launch the Visa Plus and Plus Premium Debit Cards.
- To improve credit card delivery and retention processes.

Accounts and Packages

In 2011 the bundling strategy was strongly focused on the High-Income segments. We launched a new set of exclusive financial services: Patagonia Plus Premium. This integral proposal includes a customized service and differentiated benefits for the most valued consumption lines, as well as differentiated rates on loans and investments.

❑ **Goals for 2012**

- To launch a value proposal for Business and Professionals.
- To incorporate MasterCard Black to the Plus Premium service.
- To improve the service model for the high income segment.

Patagonia Club

The agreement with Gol Linhas Aéreas was signed in 2011 and the alliance has been highly appreciated by the clients in the Club Patagonia's Award Program. .

We also continued with our improvement plan and migrated to the new software for the integral management of the Program and a new logistics circuit. The operators of Patagonia on Line enhanced the over-the-phone service for queries and redemption, thus improving synergy and quality of service.

❑ **Goals for 2012**

- To continue improving the awards, providing the clients with an enhanced catalogue.

Lending Products

Placement of Personal Loans was a paramount factor in the growth of the assets portfolio. Annual sales were 19% higher than budgeted. The average amount of loans went up 42% from 2010 and the number of transactions settled in 2011 was 20% higher than last year, with a significant increase in loans to be repaid from payroll.

The highlights of 2011 were the implementation of telephone sales with online settlement and the new agreements signed on loans to be repaid from payroll (Decree No. 691), giving priority to agencies with which we have signed salary payment agreements. Additionally, the limits per client of Patagonia Anticipo (advances) were increased, resulting in greater balances (39%). We also implemented a procedure to attract potential clients through the Internet

❑ **Goals for 2012**

- *To continue encouraging the use of electronic channels to settle loans.*
- *To work to streamline the settlement process at the point of sale.*

Products to Attract Funds

In 2011, Personal Banking deposits grew by 32%. Clients were served more efficiently as a result of the use of Home Banking and the Investment Center as an alternative channel to attract time deposits.

The number of time deposits placed through Home Banking doubled, and the use of this service was encouraged among holders of low-denomination certificates. Deposits grew significantly at the Investment Center due to our focus on high-denomination transactions. The management of certificates of deposit was modified at branch level and priority was given to medium and high-denomination deposits, enhancing the level of service provided at those facilities.

❑ **Goals for 2012**

- To continue encouraging the use of alternative channels.
- Cross-selling of Single Product Customers at the branch channel.

Insurance

In 2011, the profitability of the insurance business went up by over 70%. By focusing on improving the products we offer to our clients, insurance sales grew over 60%, in line with the steady growth of the last years.

In line with the strategy of providing a complete and comprehensive proposal including a large range of products and coverage provided by prestigious Insurance Companies, new products were added to the existing offer:

Likewise, existing products were improved, in an effort to keep them updated at constant value, so that customers may have an adequate coverage of their property and lives.

□ **Goals for 2012**

- To launch new proposals that supplement the existing ones and are in line with the Bank's portfolio changing and growing needs.
- To launch alternative sales channels, like ATMs and Home Banking.
- To design new products for the various client segments targeting at their specific needs.

Payroll Services

Banco Patagonia keeps a market share of 8% in the Payroll Service. This market share is the result of the renewal and signature of new agreements with the Public and Private Sector, that have helped strengthened the position of Banco Patagonia in the market's segment of Payroll Services.

The distribution of the Payroll Services Clients reinforces the presence and coverage of Banco Patagonia at national level.

The certification of the Quality Management System for the Payroll Service was renewed for a second time in a row, confirming our commitment to provide an efficient service to the various segments included in the target market.

In 2009, the Bank was granted the ISO 9001 certification by TUV Rheinland company for the processes of service marketing and implementation, delivery of the standard product of accreditation in the Branch, periodic payment of salaries and customer service – customer support and after-sales service, having successfully complied with the purpose of renewing—in 2010—the certification for the Quality Management System applicable to the Payroll Services, confirming the Bank's commitment to offer an efficient service in each of the several segments that make up the target market.

□ **Goals for 2012**

- To sustain the growth volume, profitability and market share of lending and deposits products, as well as transactional products.
- To emphasize our leadership in the Payroll Services Segment.
- To leverage the business growth in geographical areas and market segments with great potential.

□ **CORPORATE COMMERCIAL AREA**

■ **COMPANIES**

In 2011, **Banco Patagonia** continued to consolidate as one of the main Banks in the financial system oriented to medium-sized and large companies.

In this regard, continuing with the commercial decentralization process, by mid-year the customer service model was redefined, and all members of the commercial team, made up of business executives for each one of the segments, now report to a Comprehensive Branch Manager in all branches.

Redefinition of the commercial service model was supplemented by the addition of the SMEs Management to the Companies Executive Office, which until mid-year reported to the Retailer Commercial Area. This change was made in the understanding that the essence and features of this segment are more related to the nature of the Companies area.

Thus, the Companies Banking Executive Office is responsible for the business of Small and Medium Enterprises (SMEs), Agro-Business and Large Companies.

With the incorporation of Banco do Brasil, a new Corporate Executive Office was added, including a number of large customers with significant relations in Brazil.

The loan portfolio grew from December 2010 (ARS 3.871 billion) to December 2011 (ARS 5.674 billion), representing a 47% year over year growth.

The goal set in the borrowing transaction forecast was also exceeded, with a larger share as operative and transactional Bank represented by a 21% year over year increase, from ARS 2.130 billion as of December 2010 up to ARS 2.571 billion by the end of this year.

The Bank worked hard in cross-selling on existing and new customers, and achieved an annual fee turnover of ARS 262 million, representing a 39% increase as regards the 2010 financial year.

The exchange trading business reached an aggregate volume of USD 3,970 billion, representing a 13% increase as compared to the volume transacted in 2010.

By virtue of the global business agreement with GM, through GPAT Compañía Financiera the Bank continued to finance General Motors Argentina official dealers and carrying out significant transactional business with them. As of December 2011, this Program reached an average balance of ARS 691 million in the Bank's Lending Portfolio.

As part of the development of actions oriented to obtaining customers' loyalty, several social and sports events and commercial actions were performed. These actions provided direct contact between customers and the Bank's executives.

□ **Goals for 2012**

- To focus on the Small- and Medium-Sized Companies, with a significant growth in the number of clients and business, on the basis of an adequate segmentation and the offer of credit and transactional products.
- To consolidate the Bank's presence at the most relevant regions from the point of view of demography and GDP generation.
- To continue with the development of existing customers and to incorporate new companies in the different Managing Offices of the Bank.
- To promote transactional business, with a focus on payment and collection products.
- To strongly focus in the Payroll Services business, with existing and future customers.

The Companies Banking Sector is divided into three large business segments:

■ **Small and Medium Enterprises (SMEs)**

This year the action plans were targeted at a high level of cross-selling, increasing profitability measured by transaction and by the margins of financial intermediation.

Banco Patagonia is convinced that the new structure and the new products and services to be developed will optimize the achievements and results of the business as a whole.

At SMEs, we introduced a new definition of target segments, so that from October, SME clients are defined as: At SMEs, we introduced a new definition of target segments, so that from October, SME clients are defined as:

- ✓ Legal Persons with an annual turnover ranging from ARS 0 to ARS 30 million.
- ✓ Natural Persons with an annual turnover ranging from ARS 2 to ARS 30 million, and/or
- ✓ Natural Persons that deposit Credit Card coupons, and/or
- ✓ Natural Persons purchasing a Payroll Services Plan product for at least 3 employees.

Under this new segmentation, around 22,000 clients (natural persons) previously defined as SMEs began to be served by Retail Banking from October 2011.

As it was mentioned before, commercial actions were constantly taken during this year to expand our client portfolio, promote cross-selling and increase profits. The commercial management was extremely effective, as shown by the changes in the variables of the business: Loans, Deposits and Fees.

A wide range of products and services plus a customized and specialized service provided by Business Officers resulted in a 43% increase in the loan portfolio, including own-funds facilities and several medium and long-term financing alternatives available through our permanent and active participation in the Programs promoted by the Secretariat of Small and Medium Enterprises (SEPYME)

The higher number transactions per account made deposits grow by 23% in terms of volume, positively impacting on intermediation margins and fees.

Fee income is still one of the pillars of the profits of the SME business. In 2011, it grew significantly and totaled ARS 125 million, representing a 29% increase from last year.

□ **Goals for 2012**

- To generate all necessary commercial actions to strengthen and increase our share in the market, with focus on new clients and aggressive development of current clients.
- To continue designing products and services that satisfy the needs and contribute to the growth and expansion of our clients, leveraging the opportunities of the current environment.
- To diversify the regional and sector market through the relationship among micro-, small- and medium-sized companies located in different areas and regional economies, looking for the generation of new business and risk atomization.

■ Agro-business

The Agro-business Executive Office has celebrated its fourth anniversary and 2011 was the sixth year in which **Banco Patagonia** has actively participated in the development of business with the agriculture and farming sectors.

The 2010-2011 campaign showed good yields and firm prices in both fine and coarse grain crops, thus resulting in a very good first half of the year for agriculture. In the second half of 2011, higher costs and interventionism affected profits from the sales of wheat and corn. The global financial crisis made prices go somehow down, but the effect in the Argentine market was much lower.

Prices remained stable for the cattle raising sector (both breeding and fattening) and the breeding segment continued with the retention of female stock. It should be pointed out that in 2011 the calf price in constant Argentine Pesos was the highest in the last 42 years, within a political framework that is still somewhat complex.

The Bank strongly supported the sector and the number of active clients kept on growing steadily, resulting in a direct impact on the loan portfolio, which totaled ARS 798 million as of December 2011 (up 42% from December 2010).

Clients increasingly used the Patagonia Agro Credit Card (TAP), as well as campaign loans backed by commercial paper.

We continued developing geographical areas like the Northeast, the Province of Entre Ríos and the northern part of the Province of Santa Fe, and hired specialized officers in Rosario, Venado Tuerto and Tandil.

In 2011 we concluded the underwriting of a special facility of IFC (International Financial Corporation) intended to finance the purchase of property and equipment and/or capital goods for a maximum term of 5 years (and up to 2 years of grace). The attractive terms and conditions of this facility made it a differentiating financing product in the current market and let us gained new and significant clients.

□ Goals for 2012

- To add new clients to the portfolio, emphasizing credit risk quality.
- To continue offering a customized service model that is focused on quality and speed of responses to the client's requirements.
- To keep on developing the Patagonia Agro Credit Card, promoting new agreements and strategic alliances to expand the business community or network within the agriculture and farming sectors.
- To actively work on developing new areas like Venado Tuerto, Villa María, Orán and General Pico.

■ Large Companies

The commercial actions for this segment were targeted at the profits of the client portfolio and at the expansion of the client base. These objectives were achieved and the volume of assets and liabilities increased significantly, as well as the Bank's fees, foreign exchange trading and financial margins.

The Bank's strategy is targeted at adapting our services and products to the needs of each region and line of business, trying to satisfy the requirements of each area and the specific needs of each regional economy. We provide customized service, service quality and fast responses through a decentralized service model that helps us maintain competitive advantages.

Additionally, the risk quality factor has been, and will continue being, one of the key aspects of the business global management. This factor is taken into account within the segment to develop the lending portfolio and to incorporate new clients as borrowers, in order to maintain one of the most decent indicators in the market in terms of the quality of the risks assumed by the Large Companies Executive Office.

As of the end of 2011, the volume of lending reached ARS 3.959 billion, a 49% increase from 2010. With respect to liabilities, deposits hit ARS 1.127 billion, up 19% from the same period of last year.

As it was mentioned above, the client's transactionality level strengthened and resulted in fees in the amount of ARS 120 million, representing an increase of 46% from 2010.

Positive results were also shown by foreign exchange trading: a volume of USD 2.991 billion and a 12% increase from last year.

Finally, after the reorganization of the service model mentioned above, the Large Companies Executive Office started to implement centralized commercial actions to provide strategic support to the Branch Network.

□ Goals for 2012

- To collaborate in strengthening the organization's commercial structure by incorporating and training people at the Branch Network to appropriately maintain and develop the client portfolio and implement actions to expand such portfolio.
- To increase the Bank's penetration in the market and number of transactions.

- To keep an adequate level of delinquency.
- To develop mutually beneficial agreements and commercial contacts with suppliers and clients.

■ CORPORATE AND TRANSACTIONAL PRODUCTS

Corporate Products Commercial Assistance

In 2011, the Corporate Products Executive Office, in line with the changes in the Bank's service model, modified the structure of the commercial assistance teams to provide specialized service targeted at the various "Segments" (SMEs, Large Companies and Corporate, Finance and Public Sector).

The new structure resulted in greater specialization of similar characteristics and needs, developing commercial actions strategically implemented at each segment that led to a greater market penetration.

The transaction officers at each team are settled in Buenos Aires and provide commercial assistance specialized in Transactional Products to clients throughout the country. They keep close contact with the Managers and Officers at the branches and those of any line of Banking, giving specialized advice on Cash Management, Foreign Trade and Leasing.

With respect to the Cash Management business, special quotations are prepared after analyzing costs and prices; actions related to the signature of local payment and collection agreements are developed; agreements to increase their use are implemented, and a service is provided to follow up the use of the products and satisfy any new need.

In terms of Foreign Trade, they provide an ongoing update on BCRA's rules for the Single and Free Foreign Exchange Market (MULC), to lend assistance to internal and external customers about the rules that govern the inflow and outflow of foreign currency.

In the case of Leasing, they provide advice on the regulation, follow up transactions and help develop the same.

In 2011, the Bank issued payments for 490 clients in a total number of approximately 460,000 orders through different instruments (checks, transfer and cash) and for a total amount of ARS 14 billion – up 25% from 2010.

The service marketed as "Revenue Account" was used by over 450 clients who made a total of 946,492 deposits for a total amount of over ARS 15 billion, growing 45% from 2010.

□ Goals for 2012

- To continue strengthening the relationship with clients at all banking lines by implementing reliable and good quality products that may help increase the number of transactions made by such clients with the Bank.

Foreign Trade

New stages scheduled for the analysis and execution of the Foreign Trade Integral Project have been implemented since early January. This strategic development has a great commercial significance. It consists of incorporating consultancy and transactional functions to Patagonia Corporate e-bank for all products in the Foreign Trade portfolio. This improvement represents significant changes in the IT platform and engineering of the Foreign Trade and Exchange Executive Office, optimizing resources and operations.

In 2011 the consultation period for the payment of Argentine imports of goods and the Single Ticket, related to transfers abroad, was completed.

The advice to clients on the new regulation for foreign exchange, services and products through the Patagonia e-comex electronic channel and through the institutional web page was promoted. The training program for internal and external clients continued operating in the form of working breakfasts and all-day sessions.

The Foreign Trade service generated fees for ARS 29.5 million, a 20% year-over-year increase.

□ Goals for 2012

- To increase the market share through technological products, mostly based on the use of the web page to file documents and approve transactions.

Sales Actions

For the third year in a row the Transactional Dakar sale action was carried out, consisting of products related to Revenue, Payments to Suppliers, Foreign Trade, Bills for Collection, Corporate Cards, Corporate Current Accounts, Payroll Services and Mutual Funds. The Corporate Banking, Public Sector and Finance Executive Offices took part in such action and in 6 months fees totaled ARS 19.8 million, an increase of 61% when compared with 2010.

Development of Transactional Products

The ISO 9001 certification was renewed for the fifth consecutive period, thus securing the quality standard in the provision of the Payments to Suppliers service and differentiating ourselves in a highly competitive market. Additionally, new tools were implemented to better respond to internal requests of support and to give information to clients through the corporate web site, as well as better tools for tellers to improve internal processes with a satisfactory impact on clients.

In order to optimize web queries, suppliers will have access to the new development from December. They will have online access to the information related to their receivables and will be able to download tax withholdings. This new query tool adds to the current e-mail and call center tools.

With respect to corporate e-bank, security for clients was optimized with signatory programs that will help them operate according to the powers of attorney filed with the Bank.

Additionally, transfers will be more secure and the transfer schedule may be modified and monitored as required. Together with other areas and for the purpose of maintaining high security standards, we analyzed the incorporation of hard token devices, to be implemented in 2012.

The Revenue service made progress in the migration of the relevant agreements to barcode capture, a condition necessary to homogenize the settlement methodology and to provide more secure and faster information to clients. All tellers in the Network were trained in this product to ensure a comprehensive knowledge of the same and to sustainably expand the business.

Corporate Cards

In 2011, the number of Corporate Cards offered to customers grew and we launched the Corporate Rechargeable Card, a prepaid card for the corporate expenses.

The portfolio of Corporate Cards consists of 6 Visa Argentina products (Business, Corporate, Argentine Purchasing, Agriculture and Farming, Distribution and Rechargeable Corporate) and 3 MasterCard products (Corporate Regional, Corporate International and Corporate Gold), each of them with specific characteristics to provide differentiated services and satisfy the needs of SMEs, Large Companies, Corporations and Government Agencies.

In 2011, turnover rose from ARS 100 million to ARS 165 million (up 65%), and the number of transactions went up 30% from 2010 with a total of 230,000 transactions.

The increase was fueled by the promotions (discounts and installments) and benefits (financing terms) granted to clients through their corporate cards in both the Business and Agriculture and Farming segments.

All Business Officers were trained in all these products, with constant support and assistance for internal and external customers. Additionally, new brochures for Banking products and posters were printed to be available at the Branches marketing Corporate products.

□ Goals for 2012

- To launch SME Business and Central Account Corporate Cards.
- To implement the Early-paid Coupon product for the Agro Card.

Lending Products

The integration with the Business Segments to which support is provided was strengthened in 2011, thus generating new proposals and developments.

The automobile sector is hitting a historic peak in Argentina and as a result of that new record the Wholesaler Program (Floor Planning) that provides financial assistance to the 53 official General Motors dealers in Argentina showed an increase of over 60% in the amounts disbursed and exceeded the sum of ARS 7 billion. New financing alternatives are being developed to help cement the relationship with car dealers.

In 2011 (particularly in the first quarter), Leasing strengthened as a medium and long-term financing tool used by companies to acquire Capital Goods. As a result of the strategy to be close to the clients with a high volume of transactions at very competitive rates, a significant increase was observed in the contracts signed (over 1,800 contracts for an amount higher than ARS 460 million) – up over 60% as compared to 2010. This change was significantly above the market's average and the Bank's share grew from 6% in 2010 to 7.8% in 2011, climbing 2 positions to become 6th in the Lending Companies ranking.

We continued managing large financing and subsidy facilities, from both the international market (IFC) and the domestic market (Sepyme, Temporada de Cosecha y Elaboración de San Juan, Fondo de la Transformación de Mendoza, etc.) to support our clients' funding of Investment and Working Capital in the short and medium term.

We began to market the two types of post Shipment Exim facility of BNDES (Brazilian Development Bank) under its two modes: Guarantor Bank (up to USD 20 million) and Debtor Bank, together with Banco do Brasil New York (up to USD 140 million). Additionally, progress is being made in new facilities with international agencies (IIC 2nd tranche and Proparco) to expand our portfolio of medium and long-term financing at reasonable interest rates.

In 2011, the National State, through the Secretariat of Small and Medium Enterprises and Regional Development (Sepyme) called many auctions for financing quotas at subsidized interest rates.

On the other hand, the provinces of Mendoza and San Juan were also active and proposed us to participate in their programs. This circumstance, plus the intention of **Banco Patagonia** of having an important portfolio of financing products at preferential interest rates for clients in the Micro, Small and Medium Enterprises Segment, resulted in an award of financing quotas in domestic currency for ARS 182 million (ARS 137 million disbursed), doubling the amount awarded in 2010. At the same time, transactions amounting to USD 15 million were disbursed, corresponding to the 50% remaining from the previous year under the facility agreed with IFC for USD 30 million for clients in the Agro-business segment.

□ **Goals for 2012**

- To continue with an active participation in all auctions of financing facilities (both national and provincial) expanding the loan portfolio and the relevant related services.
- To hit a 10% market share in our Leasing portfolio and have a book of business of more than ARS 500 million.

□ **ADMINISTRATION AND FINANCE AREA**

As it was mentioned above, this Area is responsible for the management of the Bank's general business and financial resources through:

□ **FINANCE**

This area includes four specific business segments:

- Financial Transaction Desk
- Financial Entities, and Financial Companies that are neither Banks nor Institutions
- International Relations and Correspondent Banks
- Safekeeping Department

Financial Transaction Desk

The difficult context in which markets operated in 2011, especially in the main world economies, led to an extremely cautious handling of the various financial portfolios, whatever the number of assets included in them. This situation, coupled with the elections in Argentina, marked the year with a selective performance of financial assets prices in the domestic market, such as reflected in most variables (a 30% drop of the Merval index, rise of the CDS premium —which rose from 609 to 923 for a 5-year term —, a slight devaluation of the nominal exchange rate of 8.31%, rise of lending and borrowing interest rates, etc.).

Furthermore, the stricter control measures adopted by the National Government, implemented with the purpose of mitigating the impact of the world crisis on the domestic economy, had a negative impact on daily financial transactions. The profitability of the Bank's Financial Transaction Desk in 2011 exceeded last year's levels. The growth of institutional time deposits, administered by this Area, went from ARS 2.0 billion as recorded at the end of 2010, to more than ARS 2.8 billion at the end of 2011, with an also increased cost by approximately 559 basis points, and in the same period the BADLAR benchmark rate for private banks rose from 11.25% to 17.1875%.

□ **Goals for 2012**

- To minimize volatility risks that may have a negative impact on the area's profitability.
- To continue optimizing the quality of daily activities, improving the Bank's position in the market.

Financial Entities, Financial Companies that are neither Banks nor Institutions

There was a strengthening of the Bank's position as leader in the segment of financing to Financial Institutions and especially to non-banking financial entities. Credit facilities in 2011 exceeded the budgeted goals, and reached an all-time high within the clients segment by year-end.

The fee-earning products and services offered to these clients also rose, especially in the case of institutional customers such as insurance companies. Rates remained stable during most part of the year, although in the last quarter an increase was recorded, in line with the evolution of costs and BADLAR rate in the market. These rates, coupled with an increased volume, yielded significant profits that contributed to the Bank's results.

□ **Goals for 2012**

- To increase attraction of deposits and placement of lending operations in our segment.
- To win new clients.

International Relations and Correspondent Banks

At the end of financial year 2011, **Banco Patagonia** increased its international activities and presence, partnering its customers' commercial financing. The incorporation of Banco do Brasil in the Bank's shareholding structure clearly consolidates the position abroad, and new business alternatives may be explored in the future.

*As regards financing, **Banco Patagonia** also relies on the support of the International Finance Corporation (IFC), as well as of the Inter-American Development Bank (IADB). In this regard, it should be mentioned that the bank received new funds as a result of the extension of existing credit facilities, and is evaluating new alternatives with development banks in order to accompany the different needs of the market.*

□ Goals for 2012

- To deepen existing products and lines.
- To identify and develop those credit facilities that are useful for our customers' business and projects.

Safekeeping Department

In 2011, the Bank continued promoting the Custody of marketable securities and bonds and the Settlement of related transactions, both in the domestic and the international market, implementing a design that is specifically chosen for the institutional customer segment.

As a result of the authorization granted by the BCRA to the Bank in 2008 to act as custodian in accordance with Communiqué "A" 2923, as complemented and amended, the Bank continued in the custody business for the Insurance Companies segment.

Moreover, the Bank renewed its commitment to its customers, making its best efforts towards the constant improvement in service and support through the specialization of the task force, achieving a high standard of flexibility and efficiency.

Attesting to this, in 2011 the Entity obtained the ISO 9001 quality certification regarding all processes involved in the Custody of Securities product.

□ Goals for 2012

- To continue increasing the product's profitability through the attraction of new business opportunities.
- To increase the custody portfolio in the segment of institutional clients.
- To optimize operative circuits.

□ PUBLIC SECTOR

In 2011 the sustained growth of all banking segments was consolidated, as well as the meeting of specific demands of each of the various bodies of the National, Provincial and Municipal Public Administration, as well as National Universities and Armed and Security Forces.

Incorporation of new clients and cross-selling among existing ones drove the growth in this segment. Along the lines of the financing policy related to provincial and municipal development, in 2011 the credit facilities for the purchase of capital goods grew as compared to 2010, and **Banco Patagonia S.A.** ranks as the entity with the largest number of financing transactions made with public entities in the Argentine financial system, pursuant to regulations in force governing authorizations from the Ministry of Economy and the BCRA.

Transactions allowed an improvement of public services to various entities in the provinces of Córdoba, San Juan, Santa Fe, Entre Ríos, Misiones, Chaco, Mendoza, Catamarca and La Rioja, in many cases even in provinces with no history of municipal financing through the financial system,

In the area of universities, **Banco Patagonia** was successful in renewing its relationship with the following national universities: Universidad Nacional de La Rioja, Universidad Nacional del Sur, Universidad Nacional de Lomas de Zamora and Universidad Nacional de Río Negro, by means of public tender. Furthermore, the Bank was awarded the public bid for Universidad Nacional de Luján. Also the Universidad Nacional de Entre Ríos, Universidad de Avellaneda and new Regional Schools of the Universidad Tecnológica Nacional were incorporated as customers. The relationship with these higher learning institutions allowed the Bank to offer credit facilities to inter-university institutions in the provinces of Jujuy and Mendoza. The Universities segment has been consolidating year after year, and it contributes with a great volume of deposits to Public Sector Banking.

As regards Armed and Security Forces, there was a rise in the rendering of new services, as well as in the volume of transactional operations with the main customers. Development of business led to winning new investing customers, to the renewal and increase of credit facilities and to a sustained growth of fee income.

The increased number of loans to be repaid through payroll deductions, agreements governed by Decree No. 691 and even loans to be repaid through payroll deductions with some provinces (Mendoza), will allow to grant a great number of loans to employees working for the National, Provincial and Municipal Public Administration.

As the financial agent for the province of Río Negro, the Bank has provided different solutions to the needs of this province, such as the organization, structuring and participation as majority lender of the Syndicated Loan to the province in July 2011, the management and follow-up of the Unified Fund for Official Accounts ("Fondo Unificado de Cuentas Oficiales") and the permanent cooperation with the General Treasury in the handling of provincial funds.

At the same time, work was carried out on the negotiation and start-up of a new fee structure, as well as on the structuring of financing mechanisms to a great number of the above-mentioned administrations. The relevant authorities (Ministry of Economy and BCRA) granted their approval to perform leasing transactions for the updating of machinery with the Municipal Governments of Choele Choel, Luis Beltrán, Allen and Catriel.

Eleven leasing agreements were approved for the acquisition of machinery by ARSA, the provincial water supply company, and actions were carried out in line with the provincial government's social policies through the Ministry of Family Affairs, implementing programs through the "Rechargeable Social Visa Card", reaching 10,000 beneficiaries with a volume of about ARS 15 million.

The Bank also acted as a facilitator for the performance of business with other banking sectors. Special note deserve the provincial General Treasury CPD discount transactions, with the making of checks in the amount of ARS 100 million during 2011. Also, construction advancement certificate and invoice discounting transactions were performed through the branches in Río Negro. Besides, Individual Banking products were placed among provincial and municipal authorities.

In line with the goals set by the organization, the policy to sign agreements on transactional products and services with various agencies and companies in the province of Río Negro was continued.

□ **Goals for 2012**

- To consolidate relations with the new provincial and municipal authorities of the Province of Río Negro, strengthening the commercial ties and the Bank's role as Provincial Financial Agent.
- To expand commercial ties with municipalities, financing the renewal of their motor vehicle fleet and road construction machines.
- To continue expanding **Banco Patagonia's** business through new relations and the strengthening of relations with existing clients in the province of Neuquén.

□ **CORPORATE BANKING AND CAPITAL MARKETS**

In 4Q11 the Corporate Banking Management was created with the purpose of acting as the domestic financial sector of Banco do Brasil to serve multinational companies operating in the Argentine market.

In the first stage, 200 companies organized within 120 business groups were selected, which at present have a relationship with Banco do Brasil, in order to generate synergy between both parties.

The operation of this new Executive Office is divided into five business segments:

- automobile industry, auto parts and transportation;
- trade, technology and services;
- industries, chemical industries and laboratories;
- infrastructure and steel industry;
- oil, agro-business, fertilizers and foodstuff.

As of December 2011, this banking segment managed assets in excess of one trillion pesos, generating fee income in the amount of ARS 13 million and provides payroll services to more than 11,000 employees working for these companies.

□ **Goals for 2012**

- To position **Banco Patagonia** within the Corporate segment in the Argentine market.

CAPITAL MARKET

Financial Trusts

In 2011, 23 issues of financial trusts were organized and placed, for a total amount of ARS 1.750 billion. This amount accounts for a 53% increase as compared to 2010. **Banco Patagonia** maintains a market share of about 14%, keeping as one of the leading entities in this segment in the domestic market.

Undoubtedly, financial year 2011 was a significant landmark in **Banco Patagonia's** outstanding background in the issue of these products. As of December 31, 2011, the entity carried out 265 issues of financial trusts with public offering for more than ARS 9.100 billion, partnering with 37 trustors in the Argentine capital market.

Regarding the trust administration activity, the Bank kept the mark "Excellent" (top mark) for Argentine trustees awarded by Standard & Poor's. **Banco Patagonia** was the first entity to obtain this mark as Trustee in Argentina.

Corporate Bonds

As regards the issue of short- and long-term debt for clients, in this year 5 issues of short-term securities were organized and placed, in the total amount of ARS 330.7 million. **Banco Patagonia** gained a position within the main placing agents of these financial instruments for the Argentine market.

The total debt issuance was made up of four transactions for GPAT Compañía Financiera and one for Tarjeta Naranja S.A. It is estimated that the number and volume of this kind of transactions will increase in 2012.

Syndicated Loans

In FY11 five syndicated transactions were organized for a total amount of ARS 486 million. **Banco Patagonia** acted as organizer and agent bank in each of these credit transactions.

Public Offering of Banco Patagonia

In February 2011, Banco do Brasil hired the services of the Capital Market Area to launch the public offering for the acquisition of the shares of **Banco Patagonia**, which was mandatory by virtue of the takeover of the entity. It is estimated that these services will be offered to other clients that so request.

Goals for 2012

- To gain more experience in the various financing tools through the capital market, keeping a leading position in the Argentine market.

RISK MANAGEMENT

With the aim of continuing to incorporate best international practices and at the same time adopting the risk management guidelines established by the BCRA in its Comunicado "A" 5203, the Bank's Board of Directors approved the creation of the Risk Management Executive Office.

This new Executive Office is responsible for the comprehensive management of the risks faced by **Banco Patagonia** and its controlled companies through the identification, assessment, monitoring and mitigation of the most significant risks, such as financial (liquidity, market and rate), credit, operational and money laundering and terrorism financing risks. This Office reports to the Board of Directors and is responsible for the supervision of the Operational Risk Management and Regulatory Compliance Office and the Financial Risk Management Office.

Financial and Credit Risks

The necessary organizational structure has been implemented and a process for the comprehensive management of financial and credit risks is being developed. This process includes the updating of limits to risk tolerance and the proposal of new limits, the development of policies and procedures, the regular monitoring thereof, the performance of stress tests and the drafting of Contingency Plans.

Operational Risk

The Entity has implemented an operational risk management system in line with the requirements established by the BCRA in its Comunicado "A" 4793, as amended. The system includes an adequate organizational structure, policies and procedures approved by the Board of Directors, and a comprehensive system for the administration of all tasks related to the management of this risk.

Money Laundering and Terrorism Financing Risk

The necessary policies and procedures to secure compliance with regulations in force on the control and prevention of money laundering and the financing of terrorism have been implemented.

TRANSACTIONS AND TECHNOLOGY AREA

Implementation of Data Mining Models

A predictive model of credit card customers' defection has been implemented. Therefore, the likelihood of reduced credit card purchases is calculated for each customer, in order to prioritize actions oriented to the retention of customers on the basis of predicting their likelihood of defection.

Another model was completed for the detection of unusual transactions, oriented to the adoption of anti-money laundering measures. This model allows determining, for each customer, the unusual and suspicious nature of his/her transactions on the basis of his/her past behavior and of the operations performed by customers with similar transactional behavior.

Various types of scores and models were internally generated, namely:

Origin-oriented: a tool that focuses on socio-demographic aspects, with KS improvements going from 14 to 26.

Income predictor: employs the combined use of data bases and transactional history to make inferences on customers' income.

Behavior-oriented (optimization): on the basis of past records, oriented to natural persons under a labor relationship and with commercial activity.

Collection-oriented: a tool to develop differentiated strategies to face delinquency and attempt early recovery.

Expected loss model: to calculate the needs of minimum capital on the basis of methodologies derived from Basel II regulations. Implemented for the credit card segment.

A new version of the credit scoring tool was also implemented, to better segment customers through a multi-product credit scoring. Among other features, this tool allows the use of multiple scoring, combining the origination score with those furnished by credit information companies such as Veraz and Nosis.

Growth of Production and Contingency Teams

Physical processors were added to the central host, which makes it possible to increase contracted capacity to new levels. Memory was upgraded accordingly. Besides, new hardware was installed to optimize cryptographic features. The capacity of the data warehouse equipment was also increased.

The servers operative system versions were updated, as well as data bases for data warehouse and certain applications, in order to optimize the use of resources and to keep within the latest technology.

Revision of Night-shift Processes to Detect Opportunities for Performance Improvement

Night-shift processes are permanently analyzed in order to improve them, through detection of those with exceedingly long duration and relocation of others. The goal is to execute processes in the shorter possible time.

7x24 Access to *Pago Mis Cuentas* and *Visa Home* sites through e-Bank Individuals

The operation of the e-Bank Individuals channel was modified in order to allow access during night shifts.

Implementation of Immediate Transfers

The Bank is in compliance with regulations governing the mandatory nature of this service.

Implementation of the Argentine Revenue Service (AFIP) Controls on Foreign Currency Purchase Operations

Regulations on the mandatory controls of these transactions were complied with.

Comprehensive Management of *Club Patagonia* Loyalty Program

This service is no longer outsourced as from the implementation of a system that allows the Bank to fully manage the program, from the handling of the points account, prize catalogue, prize stock, up to online consultation and redemption of points.

***Bantotal* Adapted to the New Banking Commercial Structure**

Systems were adapted for the management of the new segments of Agro-business, Corporate and Individuals Engaged in Trade.

Banco do Brasil

Equipments were transferred to the Bank's facilities, and access to Banco do Brasil's services through the Bank's network and video call was implemented.

Banco Patagonia Uruguay

The project to migrate from the software that manages the Bank's operations in Uruguay was started.

***Workflow Pyme* Implementation**

This application fully supports the assessment of customers belonging to this segment.

Moving out of the Premises Located at Lavalle 369 and Av. Corrientes 629

Core offices and the call center were moved to the tower located at Av. de Mayo 701.

Implementation of Coordinates Card

This function serves as an additional security level for transfers between accounts.

Contingency Center Transferred to Av. de Mayo 701, 20th floor

The 20th floor was equipped and the necessary technological infrastructure was installed for operation of the contingency computer center. Moving of the equipment which was previously installed at the contingency center provided by IBM is nearly completed.

Implementation of IP Infrastructure for Automatic Teller Machines

This technology will support the installation of IP based ATMs.

GPAT

The technological infrastructure that is necessary to operate network, IP telephony, Internet, e-mail and IVR services was installed.

The core system and applications necessary for administration of business were implemented. A system was developed and implemented for the request of credit facilities by the dealers.

E-statement

Remittance of Visa and American Express credit cards statements through e-mail was implemented.

E-bank companies

A feature was implemented so that companies may operate in accordance with the terms agreed with the Bank.

Coordinate Cards for Companies

The product was developed and implementation of the operation is now completed.

Capture by Tellers

The *Cash Management Plus* module for the capture by tellers was implemented. Thus, all kinds of revenue are concentrated in a single application, allowing for the quick capture through bar codes.

META 4

The Human Development System for payroll and settlement modules was implemented.

Alimony Account

The Alimony Account product and issue of the associated debit card were implemented, to allow withdrawals through ATMs.

ISO / IEC 27001:2005

An Information Security Management System (ISMS) in accordance with ISO/IEC 27001:2005 was implemented, regarding security controls that protect information assets, monitoring and maintenance of the necessary controls for an adequate handling of confidential information of internal and external customers (access requirements, liability of requesting users, management of access to the operative system and mobile communication). Certificate issued by TÜV Rheinland.

ISO 9001:2008

A Quality Management System (QMS) was implemented in accordance with ISO 9001:2008 for the handling of consumers' complaints. This process includes the follow-up and control of complaints from the time of submission of the complaint throughout registration, analysis, resolution, closing and answer/notice to the customer. Certificate issued by TÜV Rheinland.

Business Impact Analysis (BIA)

The methodology for BIA development was defined and the first business impact analysis report for 2011 was drafted.

Operative Continuance Plans

In 2011 new processes were added to the Operative Continuance Plan (MNP 058).

Implementation of Cheque Cancelatorio²

A manual was drafted and published including the characteristics of this means of payment established by the BCRA, the procedures to be followed both for the purchase and payment of Cheques Cancelatorios, as well as those related to information to the Central Bank.

Prevention of Assets Laundering – FIU General Resolution 121/11

The Handbook on Prevention of Assets Laundering and other associated instruments were amended and adapted to the provisions established by the FIU. The text of the Handbook on Prevention of Assets Laundering was consolidated for better understanding.

Credit Facilities Handbook

The credit powers were adapted to the new commercial structure. Circuits and rules were developed to incorporate the assessment process for Large Companies and SMEs, without the Committee's participation.

Correspondent Accounts

The management of correspondent accounts, documents to be required and opening procedures were established in accordance with new BCRA regulations.

Inventory and Classification of Information Assets

A process for the identification and classification of information assets was implemented. Roles and responsibilities were established and data proprietors were defined.

Cash Management Collections – CPD deposits through Banelco ATMs

The reception of deferred payment checks deposited through neutral ATMs located in the Federal Capital City and Great Buenos Aires and other banks' ATMs within the Banelco network was implemented.

² A kind of cashier's check established by the BCRA.

Development of Internal Regulations

In 2011 the policy of developing handbooks of procedure was continued, with the addition of eleven handbooks to the existing ones, with special note to:

- MNP 061 Product Offering – Individual Banking
- MNP 063 Policy for risk management of IT assets
- MNP 069 Procurement and contracts
- MNP 074 Collections
- MNP 075 Club Patagonia Rewards Program

□ **Goals for 2012**

- To calibrate and use the data mining model for money laundering prevention in order to increase effectiveness of alerts on operations suspected of money laundering or fraud.
- To complete moving of the equipment to the new contingency computer center.
- To implement Comex Web.
- To implement Mutual Investment Funds through e-bank.
- To credit salaries online.
- To implement a second level of authentication for electronic channels.
- To validate user passwords for the e-bank Individuals segment.
- To perform reengineering of Operational CRM.
- To implement Banco Patagonia Uruguay.
- To implement SWIFT direct connection.
- To implement Mobile Banking at the Bank.
- To install IP based ATMs.
- To develop an assessment scorecard for Micro-companies Legal Persons.
- To develop a behavioral score for the PYME segment.
- To implement an expected loss model for the Personal Loans product.

□ **Organizational Human Development**

In this year the name of the Human Resources Main Executive Office was changed to Organizational Human Development Executive Office. This change was inspired in the main purpose of the office, which is to facilitate the individuals' development within the Organization, as a key aspect of in their relationship with the Bank, thus going beyond the classification of employees as a resource.

In order to promote specialization and the deepening of the various subjects managed by this Executive Office, the Individuals Management and Development Office was created.

In accordance with these guidelines, in 2011 business needs were addressed through employee-oriented policies and actions.

Development opportunities generated at all levels of the organization attest to this policy, accounting for more than 200 actions oriented to the development of employees who could be promoted to new positions through internal search (41 searches) or internal promotions. In line with this process, the Career Orientation Channel provided personalized advice to 34 employees, with a total of 90 consultations since its creation in 2010.

New employees were incorporated through specialized recruitment processes, accounting for an increase of more than 7% as compared to the previous year; the increased number of employees is a need resulting from the sustained growth of the Bank's organizational structure.

Training

Training actions carried out during the year were aimed at providing essential tools for the most efficient performance of the duties assigned to every office and position within the Bank.

Training was provided to a great number of employees through courses, workshops, scholarships and special programs. 50 scholarships were granted for graduate studies, 7 for the Bank Management Program offered by Universidad Torcuato Di Tella, 19 for post-graduate education or masters degrees, and 20 for other academic programs organized by ADEBA and Universidad Católica Argentina.

More than 140 employees enrolled in approximately 120 external training activities on industry-related subjects, and training courses were given internally to more than 2400 people. Besides, in 2011 the offer of e-learning courses was increased by 41% as compared to the previous year, with a total of 48 activities based on this platform, which allows teaching an updated curriculum throughout the country.

Furthermore, the Luzuriaga Training Center was inaugurated, with specific equipment for real-time simulation of all operations performed in a branch, designed for the training of just-hired tellers and back office employees.

□ **Goals for 2012**

- To continue enlarging the scope of employees' professional training regardless of geographical barriers, so they may have access to internal career development.

Program for Young Professionals

In line with the learning and training actions carried out in the institution, in 2Q11 the ninth edition of the Program for Young Professionals closed, with 10 participants from different places of the country.

Attendees from the bank or the market in general rotated through different areas and branches to learn about organizational dynamics. Upon completion of the Program, attendees were given a specific position in the organization, taking into account their academic background, the characteristics of each profile and the needs for filling vacancies in the Bank.

Performance Management

In the last quarter the Performance Management process was completed; it is a communicational tool that reinforces and accompanies employees' development within the organization, adding value to everyday activities.

The process incorporated a new review stage at the beginning of the second quarter, in which the evolution of the employees' aspects subject to improvement was observed based on the action plans previously designed.

Internal Communication

In 2011 attention was paid to the management and administration of communications oriented to the Bank's personnel. These actions included the publication of new issues of the in-house magazine "Punto de Encuentro" and the kids supplement "Chicos al Ataque", which are distributed to the staff and offer renewed contents and general interest articles.

In turn, news were informed to the personnel through internal mail; the Organizational Human Development section in the Intranet registered a total of more than 600,000 pages visited throughout the year, with the greater number of visits recorded at the "Internal Search", "Discount for Employees", "Birthdays", "Data Update" and "E-learning" sections.

Bulletin boards, digital articles and printed publications also were part of various communicational campaigns launched during the year to address subjects such as Focus on Quality, Volunteers, Contests, Events, Our Branches: a Network of Opportunities, etc. As regards the last one, the new comprehensive branch model is being communicated, reinforcing the development opportunities associated to the network expansion process.

Furthermore, the last part of the moving process to the Av. de Mayo 701 building was followed through a campaign that included several communicational articles and personalized contact with the involved sectors.

Focus on Quality

Actions were continued to foster the employees' active cooperation through the Quality Referents Program, composed of 226 members throughout the country, and the Employees' Suggestion Program, which received 824 suggestions up to date (204 initiatives implemented or under implementation and 447 under analysis). As regards the last program, a comparison survey was made with larger companies that have also implemented similar programs and results show that the Bank has obtained a good level of suggestions per employee, which increased by 7% as compared to 2010.

In turn, new and different spaces for dialogue, reflection, training and improvement were created through the Quality Breakfast Program, Branch Visit Program, and Training Courses, among other activities designed to promote an active data collection. Thanks to these programs, it was possible to put new improvement actions into practice.

In 2011, 64 quality activities were carried out, with the participation of more than 500 employees from various levels and sectors. These activities focused on a comprehensive vision of business, the attitude towards customer service, the diffusion of the Bank's quality plan, and promoted collaboration and integration among the different sectors.

Besides, objective quality measures for customer service were implemented. In this regard, the first survey on the quality of external customer service carried out in 2010 was followed up with the June 2011 monitoring and the 2011 service quality survey, which is being carried out at present. As from that survey, more than 40 actions making part of the "2010 Integrated Quality Plan" were proposed, assigned a priority order, and validated, with advancement registered in 93% of them.

As regards the ISO 9001 management system, joint work is being performed with the Operative Means Executive Office and involved areas to review the certified processes Payment to Suppliers, Payroll Services and Custody of Securities; certification for Customers' Complaints Service was begun. The Committee on Quality fostered several initiatives with a view to attaining the proposed goals.

□ Goals for 2012

- *To consolidate the concept of internal and external customer service based on proactive personal attitudes and collaboration across sectors.*

- *To drive a productive use of the information obtained from the Bank's various programs and activities which points to aspects that must be improved, thus consolidating the different channels that take part in information reception, flow and treatment, based on an integrated vision of business processes.*

Relation with Employees

In 2011 several actions were developed in order to achieve a closer interaction between employees and the organization, by means of a benefits program and recreational activities.

Under the Health and Welfare Program, conferences and workshops were organized on first aid, CPR, women's care, skin care, etc. Besides, yoga and photography lessons were taught.

As regards sports, employees from Tucuman, Mendoza, Viedma and Buenos Aires continued to be part of the Running Teams, and more employees and their families took part in several marathons throughout the country, many of them held with charitable purposes. The most important ones were the marathons organized by UCEMA, UNICEF, the Professional Association of Economic Sciences, Kleenex, Accenture, YMCA/UTN, Hospice San Camilo, and the various stages of the Chevrolet National Circuit.

In order to accompany relevant moments in the employees' personal lives, the Bank continued to give presents on occasion of university graduation, marriage and birth of employees' babies. Likewise, important presents were given to employees who worked for the organization during 25, 30, 35 and 40 years.

Actions oriented to employees' kids included back-to-school kits and more than 1,700 presents given on Children's Day for kids up to 12 years old. Same as last year, the Drawing Contest was an opportunity for the employees' children to illustrate the Christmas cards sent to the Bank's customers and suppliers.

Also the Family Day was celebrated, with the participation of 1,700 employees and their families, and the year-end was celebrated with integrating events throughout the country.

Lastly, the Employee Assistance Program continued to lend assistance to employees and their direct relatives going through adverse situations such as accidents, illness and private issues. Since the date of creation, the Program has served in more than 250 cases.

Corporate Medicine

The Bank offers a corporate medicine service to employees and their families. The Human Development Office gave advice on the enrolling process and coverage, as well as the attention of queries and administrative measures.

The Bank worked with the medical insurance company to solve the most complex medical cases, providing support and coordinating the necessary actions for their successful resolution.

Besides, control, analysis and planning of medical insurance invoices were performed, in order to optimize costs and benefits and thus be able to offer better medical services to employees and their families. The follow-up resulted in improved service coverage or access to additional benefits, such as Special Corporate Programs for the staff's healthcare.

Products for Employees

Actions were performed to offer better conditions to employees, focused on the answer to queries, credit advice and analysis of applications for products and services. In this regard, assistance was lent to employees in the completion of certain projects, such as travelling or car purchase, under preferential terms.

Implementation of PeopleNet7 – Phase I Business Solutions

In 2011 the first stage of the project leading to implementation of PeopleNet7, a tool provided by the international renowned of Human Resources software vendor, Meta 4, was completed. PeopleNet7 is a comprehensive solution to handle the different aspects of complex organizations. Its rich functionality, especially payroll, career planning and employee's and manager's self-service tools, will provide the Bank with a central data base and more effective management through a single technological solution.

The implementation project included the survey, development, testing and implementation stages for the Staff Management and Payroll modules; in November 2011 the payroll module was fully implemented.

□ Goals for 2012

- To implement the remaining modules of PeopleNet7 comprehensive solution, favoring the management of subjects related to the area and offering more services to the internal customer.

4 □ ANALYSIS OF SHAREHOLDERS' EQUITY AND OF PROFIT AND LOSS STATEMENT

Income for FY 2011

The 2011 fiscal year ended with income of ARS 612.2 million, which compared to the ARS 481.4 million for fiscal year 2010, accounts for a 27.2% increase. The following are the main changes in the composition of the company's profits.

Financial income increased by 36.6% as compared to 2010 (ARS 2.1436 billion vs. ARS 1.5688 billion). The main source of income was interest on loans granted to the non-financial private sector, due to the 49.0% increase in the lending portfolio volume (ARS 10.5203 billion vs. ARS 7.0607 billion), partially offset by lesser income from government and private securities as compared to 2010.

Financial expenses were 82.9% higher than the amount recorded in 2010 (ARS 747.0 million vs. ARS 408.5 million). Interest on term deposits grew by 102.7%, due to increased volume (ARS 5.1053 vs. 3.9882) and higher average annual rates (10.7% vs. 8.8%).

As a consequence of the above, the intermediation spread (difference between financial income and expenses) rose by 20.4% as compared to the previous year (ARS 1.3967 billion vs. ARS 1.1603 billion).

The uncollectibility charge on loans increased by 80.1% as a result of the increased volume of the total portfolio. However, the non-performing portfolio index was 0.8% as compared to 1.2% in the previous year. Furthermore, coverage of non-performing portfolio with provisions was 238.6%, as compared to 171.6% in 2010.

Net fee income increased by 47.4% in FY 2011, reaching ARS 638.2 million as compared to ARS 432.9 million in the previous year. All items recorded increases both in price and volume; special attention deserves income related to deposit accounts and income related to the granting of loans and the issue of debit and credit cards.

Administrative expenses had a year over year change of 27.0%, rising from ARS 861.8 million to ARS 1.0942 billion, due to the increase of the Company's operating expenses (25.6%) due to higher activity, to the adjustment of prices paid to our suppliers and payroll expenses (30.1%), by virtue of the wage settlement agreements made during the year and of an increase in the payroll.

Miscellaneous earnings (net of miscellaneous losses) increased by 101.5% (ARS 119.7 million vs. ARS 59.4 million), mainly due to the revaluation in the Company's ownership interest in GPAT Compañía Financiera S.A. associated to recovered loans and proceeds from the sale of fixed and miscellaneous assets.

ROE (Return on Equity)

As of December 31, 2011, the average return on equity in the year was 27.4% as compared to 25.2% in the previous year. The financial system ROE reached 26.2%, and stood at 28.552 for private entities as a group³.

ROA (Return on Assets)

As of December 31, 2011, the average return on assets was 4.0%, as compared to 4.5% in the previous year. The financial system ROA reached 2.6%, and stood at 3.15% for private entities as a group¹.

Balance Sheet

As of December 31, 2011 the Company's total assets and liabilities grew by 30.5% and 32.8%, respectively, as compared to the previous year, reaching ARS 18.5612 billion and ARS 16.0787 billion, respectively. The main reason for such increase is the evolution of loans and deposits, as detailed below:

Changes in Loans

The non-financial private sector loan portfolio had a 49.0% year over year change, reaching ARS 10.5203 billion vs. ARS 7.0607 billion in the previous year. The financial system average growth stood at 46.7%. The lending portfolio grew both in trade and consumer credit facilities.

Commercial loans increased mainly in authorized overdrafts, with an increase of ARS 628.5 million (60.9%) and documentary credits oriented to companies, with an increase of ARS 1.2881 billion (42.3%).

As regards consumer loans, there was an increase of ARS 764.5 million (64.3%) in personal loans and of ARS 529.8 million (65.0 %) in credit cards.

Besides, as from 2009 the Bank has been funding the official dealers network of General Motors Argentina S.R.L., with an increase of ARS 257.8 million (53.6%).

Changes in Deposits

³ Source: BCRA November 2011.

As of December 31, 2011 total deposits had a positive change of 29.3% (ARS 3.0185 billion in absolute figures), reaching ARS 13.3172 billion, as compared to ARS 10.2987 billion in the previous year. Growth of the financial system as a whole stood at 22.2%.

Non-financial private sector deposits totaled ARS 11.4356 billion, accounting for a 31.6% change as compared to the previous year (ARS 8.6918 billion). Special mention deserves the ARS 1.1171 billion increase (28.0%) in term deposits. Checking account and savings account deposits had a positive change of ARS 542.6 million (33.6%) and ARS 942.5 million (34.4%), respectively. Total deposits accounted for 71.7% of the Company's total funding.

Liquidity Ratio

As of December 31, 2011 the Company's liquid assets (cash and cash equivalents and government and corporate securities) dropped by 5.7% as compared to the previous year, going from ARS 5.0413 billion up to ARS 4.7539 billion. Furthermore, the liquidity ratio was 35.7% on total deposits, as compared to 49.0% in 2010. This reduction is related to the decision adopted by the Entity to favor the granting of loans to the private sector. Liquidity levels remained at the levels established in the policy set by the Board of Directors on this matter.

Debt-to-Income Ratio

As of December 31, 2011 the debt-to-income ratio measured in terms of shareholders' equity on total liabilities was 15.4%, as compared to 17.4% in 2010, standing at 12.38% for the financial system as a whole, and at 13.3% for private entities⁴.

Shareholders' Equity on Net Assets (Leverage)

Leverage, defined as the quotient between shareholders' equity and net assets, reached 14.0%, as of December 31, 2011, as compared to 15.5% of the previous year, while it stood at 11.2% for the financial system as a whole, and at 11.7% for private entities as a group⁴.

Fixed Capital

As of December 31, 2011, the fixed capital indicator, defined as fixed assets (fixed assets and miscellaneous assets) on total liabilities improved as compared to the previous year, standing at 1.6% as compared to 2.0% in the previous year.

Monetary Regulations

The Bank complies with the monetary regulations established by the BCRA and maintains a prudent behavior. As of December 31, 2011, Banco Patagonia's capitalization index had excess cash in the amount of ARS 1.001 billion as compared to the requirements set by the BCRA.

In this regard, the capitalization ratio that relates RPC (accountable corporate liability) to risk-weighted assets reached 19.5 % against 25.5% of the previous quarter. Said decrease was originated mainly in the rise of the Company's lending portfolio.

Balance Sheet and Profit and Loss Statement

The following is the Company's Balance Sheet and Profit and Loss Statement as of December 31, 2011, as compared to the financial years ended on December 31, 2010, 2009, 2008 and 2007.

Balance Sheet (in thousands of ARS)	2011	2010	2009	2008	2007
Cash and Cash Equivalents	2,242,338	1,480,998	1,510,076	1,431,029	1,069,408
Government and Corporate Securities	2,511,636	3,560,312	2,617,348	1,892,772	1,682,202
Loans	11,053,174	7,234,969	4,417,035	3,735,714	3,328,730
Other Receivables from Financial Intermediation	1,322,274	840,035	586,356	1,338,323	620,703
Receivables for Financial Leasing	491,174	233,263	137,170	184,006	152,627
Investments in Other Companies	273,062	206,983	79,744	71,070	65,171
Miscellaneous Receivables	405,570	417,568	199,247	148,202	83,476
Fixed Assets	199,695	176,057	103,010	96,636	78,145
Miscellaneous Assets	61,716	71,821	108,725	40,341	43,697
Intangible Assets	-	-	-	-	-
Items Pending Allocation	583	558	511	375	184
Total Assets	18,561,222	14,222,564	9,759,222	8,938,468	7,124,343

⁴ Source: BCRA, November 2011.

Balance Sheet (in thousands of ARS)	2011	2010	2009	2008	2007
Deposits	13,317,163	10,298,742	6,522,363	5,245,934	4,697,827
Other Liabilities for Financial Intermediation	2,070,508	1,295,742	788,026	1,745,190	689,843
Miscellaneous Liabilities	622,759	448,072	469,068	218,750	144,632
Provisions	66,993	68,054	64,091	58,683	43,865
Subordinated Corporate Bonds	-	-	61,200	112,288	154,134
Items Pending Allocation	1263	962	473	1,513	16,857
TOTAL LIABILITIES	16,078,686	12,111,572	7,905,221	7,382,358	5,747,158
SHAREHOLDERS' EQUITY	2,482,536	2,110,992	1,854,001	1,556,110	1,377,185
TOTAL LIABILITIES + SHAREHOLDERS' EQUITY	18,561,222	14,222,564	9,759,222	8,938,468	7,124,343

Profit and Loss Statement (in thousands of ARS)	2011	2010	2009	2008	2007
Financial Income	2,143,648	1,568,755	1,573,487	967,058	560,316
Financial Expenses	746,994	408,491	434,341	329,206	208,798
Gross Intermediation Spread	1,396,654	1,160,264	1,139,146	637,852	351,518
Uncollectibility Charge	97,103	53,859	66,732	31,655	18,959
Fee income	864,477	616,620	481,218	408,018	313,955
Expenses for Services	226,305	183,669	141,306	113,716	71,593
Administrative Expenses	1,094,152	861,800	659,858	562,661	404,135
Net Financial Intermediation Income	843,571	677,556	752,468	337,838	170,786
Miscellaneous Profits	152,910	102,585	63,839	80,478	73,526
Miscellaneous Losses	33,203	43,186	41,627	41,282	36,718
Net Income before Income Tax	963,278	736,955	774,680	377,034	207,594
Income Tax	351,032	255,551	325,854	110,288	74,900
Net Profit (Loss) of the Year	612,246	481,404	448,826	266,746	132,694

Incoming or Outgoing Cash Flow Statement

The following is the statement of cash generation or allocation corresponding to fiscal year ended on December 31, 2011, as compared to the years ended on December 31, 2010, 2009, 2008 and 2007.

CASH CHANGES DURING THE YEAR (in thousands of ARS)	2011	2010	2009	2008	2007
Cash Flow from Operating Activities	561,152	195,505	261,755	252,930	84,562
Cash Flow (Allocated to) Generated by Investing Activities	-2,396	-125,760	4,311	-23,461	30,738
Cash Flow (Allocated to) Generated by Financing Activities	66,169	-207,644	-332,503	14,916	131,971
Financial Income (Expense) and Holding Gains (Losses) and their equivalents	136,415	108,821	145,484	117,236	45,917
CASH (DECREASE)/INCREASE	761,340	-29,078	79,047	361,621	293,188

Preparation of Financial Statements in accordance with International Financial Reporting Standards

In 2007, the stock of Banco Patagonia was listed for the first time at the Buenos Aires and Sao Paulo (Brazil) Stock Exchanges. Therefore, the financial information included in the financial statements to be submitted before the Brazilian Securities Commission (CVM) must comply with the International Financial Reporting Standards (IFRS) so that information is consistently issued in relation to other listed companies and investors are provided with sound information as required for decision making purposes.

To this effect, the guidelines established in the Framework of Definitions adopted by the IASB (International Accounting Standards Board) and the IFRS criteria are used; its contents do not operate as a replacement of but as a supplement to the aforementioned rules. IFRS include several standards and interpretations adopted by the Accounting Standards Board, as follows:

- International Financial Reporting Standards (IFRS)
- International Accounting Standards (IAS).
- Interpretations made by the International Financial Reporting Standard Interpretations Committee (IFRIC) or the former Standards Interpretations Committee (SIC).

In this regard, as from fiscal year 2007, the annual financial statements have been issued completely in compliance with said international standards, including the valuation of assets and liabilities, the allocation of profits and losses and presentation rules.

In turn, financial statements are issued quarterly to reconcile equity balances and income statements according to the above mentioned standards, jointly with the reconciliation of said balances with the accounting rules applicable in Brazil.

In addition, it is informed that the BCRA has begun the analysis for the adoption of international standards in the preparation of financial information, which will be used by the entities of the Argentine financial system. This

analysis will require training of employees, management and Board of Directors, the adaptation of information systems and procedure standards, etc. As of this date, the BCRA has not published the implementation schedule, which will take approximately four years.

5 □ MAIN AMENDMENTS TO RULES

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Emergency Provisions

Law No. 26,729, passed on December 27, 2011, extended the force of Law No. 26,204 on Public Emergency Provisions and Amendment to the Foreign Exchange System, as amended, and the public emergency provisions on social, economic, administrative, financial and foreign exchange matters until December 31, 2013.

Amendments to the Criminal Code and Anti-money Laundering and Terrorist Financing Laws

In 2011, several amendments were made to provisions on the prevention of money laundering and terrorist financing, based on the conclusions of regular evaluations on the Republic of Argentina carried out by the Financial Action Task Force (FATF-GAFI).

The following laws introduced amendments to the National Criminal Code and related statutes.

Act No. 26,683

This law was enacted on 06/17/2011 and amends several provisions of the Criminal Code and of Law No. 25,246 (prevention of unlawful assets laundering).

The main amendments to the Criminal Code are the following:

- The addition of a new Title (Title XIII – "Crimes against Economic and Financial Regulations"), including the crime of money laundering as an autonomous crime, thus repealing the former provision that stated that money laundering only existed when subordinated to another crime. Likewise, "self-laundering" was made a crime, i.e., the individual guilty of money laundering may or may not have taken part in the unlawful act that produced the funds which are allegedly legal.
- The amounts as from which the crime of money laundering applies were raised to ARS 300,000 (as compared to ARS 50,000).
- Legal persons were made criminally liable, and the relevant penalties established (fines from 2 to 10 times the value of the goods resulting from the crime, total or partial stay of activities for a maximum 10-year term, cancellation of legal personality, etc.).

The following are the main changes introduced to Law No. 25,246:

- Financial and functional autonomy is granted to the Financial Intelligence Unit (FIU), and the corresponding funding sources are established.
- New underlying crimes are established: blackmailing, trade in human beings and the crimes established in the Criminal Tax System.
- The process for appointment of the FIU President and Vice-president is established, and the requirements to be met by FIU members are set.
- FIU's powers. *Sub judice* rules may be ignored in the case of reports on suspicious activities made by the BCRA, the SSN (the National Insurance Authority), the CNV, the IGJ (the Legal Persons Board) and the AFIP (the Internal Revenue Service). Secrecy of proceedings will be ignored only as regards the person or persons who are directly involved in the reported transaction.
- Voluntary statements may not be anonymous.
- **New parties** are under the duty to report:
 - Ship Registries and Aircraft Registries;
 - the INAES (the National Institute of Social Economy) and the National Anti-trust Court;
 - real estate brokers;
 - mutual associations and cooperatives;
 - any person who habitually trades in cars, trucks, motorcycles, buses and vans, tractors, agricultural and road machinery, ships, yachts and similar crafts and aircrafts;
 - trustees; and

- legal persons who are responsible for the organization and regulation of professional sports, among others.
- The duty to report is of joint and unlimited nature for all members of the managing body.
- A section is added establishing the definition of customer and the minimum amount of information to be requested from customers, whether they are natural or legal persons.
- The maximum term to report transactions that are suspicious of money laundering is 150 calendar days as from the date of the actually performed or attempted transaction.
- Statutes of limitation of 5 years are set to apply the penalties established for non-compliance with the duties to report to the FIU.

Act No. 26,733

This act, enacted on 12/27/2011, amends provisions of the Criminal Code in order to characterize certain behaviors that infringe the economic and financial system (Title XIII, Criminal Code).

In the first place, the offences of insider trading and market manipulation were designated; those crimes are part of the core international standards promoted by GAFI and have been suggested by said agency in various evaluation rounds.

It should be noted that until the passing of this Law, such behaviors were considered as administrative offences, and the National Securities Commission was the agency in charge of investigating them and, if applicable, of imposing the corresponding penalties. These offences are punished with 2 to 4-year terms of imprisonment, fine equivalent to the amount of the operation and disqualification of up to 5 years for representatives, administrators or statutory auditors of business companies.

Furthermore, two categories of offences associated to the protection of the financial system were designated:

- ***Financial intermediation performed in violation of regulatory provisions and avoiding supervision of the competent authority*** (2 to 8 years of imprisonment, fine and special disqualifications).
- ***Fund raising from the public through fraudulent means*** (2 to 6 years of imprisonment).

Lastly, the above-mentioned law creates the offence of “**financial bribery**” applicable to brokers in the financial market (2 to 6 years of imprisonment and disqualification for an equal period of time). Any person accepting money or any other undue economic advantage, or accepting a direct or indirect promise in order to facilitate, permit, or advise on the performance of credit transactions or any other financial or investment transaction in self-governing entities will be subject to the applicable penalties.

Act No. 26,734

This law, enacted on 12/27/2011, amends the general provisions of the Criminal Code by adding an aggravating circumstance whereby the penalty applicable to any offence committed with a terrorist purpose is intensified. If the offence is committed with the purpose to terrorize, the minimum and maximum penalties are doubled, and if the purpose is forcing national public authorities or foreign governments or officers of an international organization to perform an act or refrain from doing so, the increased penalties will be applied, provided no constitutional right is infringed.

Also the offence of terrorist financing is transferred to Title XIII of the Criminal Code (crimes against economic and financial regulations).

Rules issued by the Financial Intelligence Unit (FIU)

In 2011 the FIU issued a great number of resolutions governing the behavior of certain persons who are subject to liability, in order to incorporate the comments made by FATF-GAFI as a result of regular evaluations on Argentina. The following are the most important resolutions regarding the financial system:

Resolution No. 11/11

The above-mentioned resolution, issued on 01/13/2011, classifies the following individuals as politically exposed persons: authorities and representatives of political parties at national and provincial levels and of the City of Buenos Aires; authorities and legal representatives of unions, business organizations and workers' social service associations; and spouses and relatives in the ascending, descending and collateral series until the third degree of consanguinity or affinity.

Resolutions No. 37/11 and 121/11

Resolution No. 37/11, dated 02/11/2011, established certain measures and procedures to be followed by financial entities in order to prevent, detect and report on facts, acts, operations or omissions that may result from the commission of the money laundering and terrorist financing offences, and repealed Resolution No. 2/2002, as amended, governing the persons subject to this duty.

Subsequently, Resolution No. 121/11 consolidated all provisions that govern financial entities regarding anti-money laundering and terrorist financing matters. Actually, this Resolution replaces Resolution No. 37/11 and includes some of the provisions that were previously incorporated in the Central Bank Consolidated Texts on "Anti-Money Laundering and Other Illegal Activities" and "Prevention of Terrorist Financing". The following are the most significant aspects:

- Establishment of the requirements to be met by the Compliance Officer and procedures to be followed for advising his/her appointment to the FIU and for his/her registration in the FIU website in such a capacity, in accordance with the provisions of FIU Resolution No. 50/2011.
- It is established that before beginning a commercial or contract-based relationship with customers, financial entities must identify the customer, comply with the provisions of FIU Resolution No. 11/11 on politically exposed persons, verify their non-inclusion in the list of terrorists and/or terrorist organizations and request information on the products to be used and the reasons for their choice.
- Regular clients are defined as the persons with whom a permanent relation is established, regardless of the amount, or else those who do not maintain a permanent relation but perform operations for USD 60,000 or a higher amount, or the equivalent in other currencies, during the year. Conversely, the FIU will consider as occasional clients those with whom no permanent relation exists or those who perform operations for less than USD 60,000, or the equivalent in other currencies, in the year.
- In the case of regular customers, the customer's profile must be defined on the basis of the information and documents on the economic, wealth, financial and tax condition, as furnished by the customer or obtained by the financial entity. On the basis of the above, an estimated annual amount for operations during the calendar year will be estimated.
- The profile must be updated whenever unusual operations are detected, significant changes in the manner of operation are registered, assets laundering is suspected and/or when considered necessary in accordance with the risk parameters adopted by the entity.
- The term for reporting transactions suspicious of money laundering, in accordance with the provisions of Law No. 26,683 (06/01/2011), is extended from 30 to 150 calendar days as from the date of the transaction. In case of a suspicion of terrorist financing, the term is only 48 hours.
- As from 08/19/2011, files regarding new clients must be prepared in accordance with the requirements established in these regulations. In the case of existing customers, the following guidelines for file updating must be complied with:
 - a) *those who, in 2011, made transactions for an amount in excess of THREE MILLION ARGENTINE PESOS (ARS 3,000,000), or the equivalent in other currencies, before March 1, 2012;*
 - b) *those who, in 2011, made transactions for an amount ranging between ONE MILLION ARGENTINE PESOS (ARS 1,000,000) and THREE MILLION ARGENTINE PESOS (ARS 3,000,000), or the equivalent in other currencies, before December 31, 2012;*
 - c) *in the case of customers who have made transactions in 2011 for an annual amount lower than ONE MILLION ARGENTINE PESOS (ARS 1,000,000), or its equivalent in other currencies, financial entities must update their files in accordance with the provisions of this resolution at the time when such customers request new products or services, or visit the institution for any other reason.*

Resolution No. 165/11

This Resolution, dated 10/14/2011, sets the guidelines to regulate the duty to cooperate and the procedure to supervise regulations in force -issued by the FIU- by the BCRA, the CNV and the SSN.

Besides, it establishes that FIU officers may take part in any *in situ* supervisions, controls or inspections carried out by these agencies. The BCRA, CNV and SSN must form a team of trained and specialized inspectors who must be familiar with the Handbook of Procedure of their respective agency, which shall include a risk matrix on which supervision actions will be based.

Eventually, the FIU establishes the procedure for *in situ* supervision, control and inspection that must be followed by the BCRA, CNV and SSN. The following are the main features:

- a. The BCRA and CNV shall draft an annual plan for *in situ* supervision, control and inspection and submit it to the FIU 20 days before the beginning of each calendar year. The Resolution also establishes a quarterly follow-up of the inspections that were carried out in accordance with the submitted plan.

- b. The FIU President shall approve these plans and may modify them if he/she considers it convenient. The FIU, BCRA, CNV and SSN may alter these plans during the year, but must advise the FIU in advance to obtain the agency's approval.
- c. Within 10 days after completion of each *in situ* supervision, control and inspection procedure, the BCRA, CNV and SSN shall submit to the FIU the final report drafted on the basis thereof; the report shall include any background data, the tasks performed, an analysis of the information and the result of the *in situ* supervision, control and inspection proceeding. The FIU shall set up a file on the basis of this information.

It should be noted that if these Final Reports should not comply with any of the FIU rules, said agencies shall submit, together with the Final Reports, any support documentation in accordance with the provisions of Chapter IV, Law No. 25,246, as amended.

It should also be noted that FIU supervisors are empowered to make *extra situ* inspections, i.e., the general supervision of compliance by the parties who are governed by the provisions of legislation in force. Furthermore, any FIU supervisor may supervise compliance with the registration in the Operations Report System (ORS), the appointment of the Compliance Officer, the submission of Systematic Operations Reports and other duties.

Regulations issued by the Argentine Central Bank (BCRA)

The following are the main regulations issued by the BCRA in 2011.

Prevention of Money Laundering and other Illegal Activities

BCRA Communiqué "A" 5218 consolidates this agency's regulations on the prevention of money laundering and terrorist financing in a single revised text that includes provisions that are complementary to the rules described in item a). This revised text is divided into only three sections:

- Complementary rules for the prevention of assets laundering and terrorist financing.
- The procedure to report to the BCRA the appointment of the Compliance Officer, pursuant to FIU regulations (the previous BCRA provisions on the party responsible for anti-money laundering were repealed).
- The remaining items are related to:
 1. The database to be kept on transactions and issues related to the maintenance of this information.
 2. Limitations to check and bill of exchange cashing for amounts in excess of ARS 50,000 (previously enacted provisions).
 3. Mandatory deposit of money from credit facilities to an account when in excess of ARS 50,000 (previously enacted provisions).

Guidelines on Corporate Governance and Risk Management

In May 2011, the BCRA issued two rules to be implemented on 01/02/2012, instructing the entities to adopt good practices on corporate governance and risk management, along the lines of the recommendations on these matters issued by the Basel Committee.

One of them, BCRA Communiqué "A" 5201, dated 05/09/2011, establishes a definition of corporate governance and provides that financial entities must enforce a code of corporate governance. The rules to be included in such a code may be broadly divided into two groups. The first one includes the aspects related to the organizational structure and defines the roles and responsibilities of the Board of Directors, senior management, committees and internal and external auditors. The second one describes the policies to be implemented by the entities, such as "Economic Incentives for the Staff", "Know your Structure", "Transparency" and "Risks".

On 05/23/2011 the Argentine Central Bank published Communiqué "A" 5203 setting forth the guidelines for risk management at financial entities, which provides that "... as from 01/02/2012 financial entities shall apply a comprehensive process for risk management...".

This Communiqué is divided into the following chapters: Risk Management Process (Chapter 1); Credit Risk Management (Chapter 2); Liquidity Risk Management (Chapter 3); Market Risk Management (Chapter 4); Interest Rate Risk Management (Chapter 5); Operational Risk Management (Chapter 6); Stress Tests (Chapter 7). As regards Operational Risk, only minor changes in terminology were introduced in the regulations in force up to date (Communiqué "A" 4793 and following ones).

In general, the rules on each type of risk establish that risk management strategies (risk identification, evaluation, follow-up, control and mitigation) shall be implemented, as approved by the Board of Directors (policies, procedures), as well as limits to exposure and validation processes for the current models. Besides, the Communiqué establishes that senior management and the Board of Directors must be familiar with and understand the nature and level of the risks assumed by the entity.

Lastly, besides evaluating all the risks financial entities face, they must perform stress tests to obtain a prospective evaluation of possible scenarios to which they may be exposed. The matters to be considered include a methodological framework and the regular updating of the above-mentioned stress tests.

Main Regulations Governing the Single Free Foreign Exchange Market

➤ Repatriation of insurance companies' investments.

In order to implement the provisions Resolution No. 36,162 of the National Insurance Superintendence, requiring insurance companies to repatriate any investments placed abroad, the BCRA Communiqué "A" 5254 included an exception so they may exceed the maximum monthly limit of USD 2 million for the inflow of foreign currency into the domestic foreign exchange market.

➤ Foreign Exchange Consultation Program

Communiqué "A" 5239, as amended and supplemented, established the "Foreign Exchange Consultation Program" effective as from 10/31/2011, whereby financial entities must consult and record all sales of foreign currency to their customers. The consultation will return a "valid" or "inconsistent" reply; in the latter case, the transaction may not be carried out.

The following transactions are not included in the scope of this Program:

- Transactions to be made by natural persons using money from mortgage loans in domestic currency granted by domestic financial entities for the purchase of real property, as far as the amount obtained is simultaneously applied to pay for the property, as specified in the loan agreement.
- Natural persons' transactions to purchase foreign currency bills with money received from retirement and pension funds paid abroad.
- Purchases made by international agencies and institutions that act as official export credit agencies.
- Purchases made by local governments;
- Foreign exchange sales to non-residents related to tourism and travel, provided the following two conditions are met; otherwise, the BCRA previous authorization will be required:
 - that evidence is provided of the previous inflow of foreign currency through the domestic foreign exchange market during the non-resident's stay in Argentina, for an amount not lesser than the one that is sought to be acquired; and
 - that the equivalent of USD 5,000 per customer and stay in Argentina is not exceeded.
- Transfers abroad for the payment of goods or services through credit cards and withdrawals made through ATMs abroad from domestic accounts.
- Sales to tourism and travel operators registered as such with the AFIP.

➤ Assets Abroad

Communiqué "A" 5236 increased the requirements imposed on those who purchase assets abroad for an amount in excess of USD 250.000 per year, who must now provide evidence that the funds applied to the purchase have a lawful tax and wealth justification. This provision intends to tighten existing regulations on the purchase of foreign currency with no specific destination.

Contrary to regulations in force until the new controls were enforced, which established consistency requirements between foreign exchange purchases and personal tax returns, it is now mandatory to prove the existence of justified specific funds to be applied to the purchase of foreign currency.

➤ Transfers

BCRA Communiqué "A" 5181 imposes the requirement to obtain complete information on the transferor (full name or corporate name, address or identity card or tax ID, and customer's ID number at the transferring entity) for transfers from and towards foreign countries, and messages associated thereto.

Besides, entities have the duty to detect transfers that lack any piece of this information in order to keep them in a stand-by condition in the foreign exchange domestic market until the missing information is provided.

➤ Inflow of foreign currency from the export of crude oil, gas and mining companies.

Pursuant to the provisions of Decree No. 1722/11, BCRA Communiqué "A" 5235 reestablished for companies producing crude oil or its by-products, natural gas and liquefied gas, and for mining companies, the obligation to fully declare and negotiate in the domestic foreign exchange market all foreign exchange proceeds from their exports.

Measures Oriented to Improve Means of Payment

BCRA Communiqué "A" 5194 and supplementary rules enabled the possibility to make immediate money transfers, in Argentine pesos and dollars, through ATMs and home banking services.

Said transfers may be made 24 hours a day, and funds shall be credited on line on business days from 8 a.m. to 6 p.m. Likewise, the deadline for entities to complete the implementation of transfers in pesos is 04/25/2011, and 05/31/2011 in the case of transfers in dollars.

Also maximum limits—which financial entities may increase—are set for each type of transfers, per day and per account: ARS 10,000 for transactions made through ATMs and up to ARS 50,000 for transfers made over the Internet (home banking), while transfers in U.S. dollars may be made for up to USD 2,500 and USD 12,500, respectively.

Finally, it was provided that transfers in the amount of up to ARS 10,000 shall be free.

Amendment of Minimum Security Measures

BCRA Communiqué "A" 5175 established regulatory operational instructions regarding Act No. 26,687 on "Minimum Security Measures for Financial Entities".

These entities must meet three requirements, with a set implementation schedule: setting up lateral screens at the sides of cashiers and ATMs, application of technical requirements that were already in force for the construction of armored vaults, also to be observed for safe boxes, and technical means to make mobile phones operative inside the facilities.

6 □ CORPORATE SOCIAL RESPONSIBILITY

In 2011, **Banco Patagonia** continued to generate and promote corporate social responsibility policies related to education, culture, sports and environment, the pillars of our society. For that purpose, promotion (non-welfare) actions and programs were implemented through interdisciplinary groups targeted to the community, fine-tuned with business goals, respecting at all times an ethic and transparent environment and fostering social, economic and environmental development.

Accordingly, computers and furniture donations to educational institutions, at primary, secondary and university levels, and to other organizations, continued. Besides, the Bank supported the projects developed by other organizations of civil society, such as libraries, dining halls, associations and foundations.

Institutional Actions and Programs

Education

- Sponsorship of educational and productive projects through the Tax Credit System: in 2011, 100% of the Tax Credit was distributed among 16 projects in various provinces;
- The programs of Fundación Cruzada Patagónica received continued support, keeping the 45 scholarships to young people from Rio Negro who, due to long distances, must travel to the Agro-technical Comprehensive Study Center run by the Foundation in Neuquén.
- Another outstanding action was the donation of 16 PCs with a MS Office e-learning course to the same foundation, intended for the center of studies located at Cholila. The donation and the course seek to promote training that offers career opportunities to unemployed individuals living in that place. This action was carried out under the Tax Credit incentive program run by the Argentine Ministry of Labor.
- Development of the Universities Program together with the Payroll Services Management Office, to grant education and research scholarships to the main national universities and create IT Classrooms.
- The Outstanding Young People Prize reached its third edition. It is a joint enterprise with the Universidad Tecnológica Nacional (UTN) and the Argentine Navy, consisting of study trips to the Puerto Belgrano Navy Base, where the students holding the best scores from each Regional UTN have the chance to become familiar with the facilities and put their knowledge into practice.
- Nationwide sponsorship of the educational program "TC200 Goes to School" ("TC2000 va a la escuela").
- The scholarship program Becas Cimientos was implemented in the provinces of Rio Negro, Neuquén and Catamarca.

Culture

- The employees' holistic and creative capacities were fostered. Drawing, poetry and photography contests were organized, and tickets for various cultural events were handed by drawing lots.
- Sponsorship of the Symphonic Orchestra of the Universidad Nacional de Río Negro as a manner to promote the relationship with the outreach areas of the universities that are Bank customers.
- Support to the San Martin Theater Friends' Foundation (Fundacion Amigos del Teatro San Martin) and other institutions promoting cultural events for non-profit purposes.

- In 2011, ten cultural projects were sponsored under the terms of the Patronage Law – Cultural Promotion System of the City of Buenos Aires.

Sports

- The Bank supported benefit-oriented marathons organized by UCEMA, Hospice San Camilo, Sesa Select and UTN.
- The New Special Olympics were also sponsored, to support young athletes with ID in several sports.

Environment

- Support to the Green Helmets Association: 13 handicapped young people were granted scholarships and are currently studying to become Environment Specialists.
- Fundación Cuidemos Nuestra Casa: in Puerto Deseado, Santa Cruz, support was lent to educational projects at primary and secondary school level, oriented to the care and preservation of the environment and the practice of social values.
- The internal campaign oriented to raise awareness on the rational use of paper was continued.
- Visa and AMEX card electronic statements were promoted, in order to minimize printed material.
- Waste Electrical and Electronic Equipment (WEEW): as a result of technological advancement and substitution of IT equipments, electric and electronic devices are discarded and had to be disposed of through sustainable management practices. This kind of waste is managed by a certified operator.

Corporate Volunteering

- Employees donate toys to various institutions in the volunteer campaigns organized for Children's Day.
- The Second Reading Corner was completed together with Fundación Leer. It was set up at Oratorio Don Bosco, district of Almagro, City of Buenos Aires, to benefit more than 50 children.
- Corporate volunteering was extended to several provinces; successful collaboration with Un Techo Para Mi País Argentina was obtained and 7 houses for families in extremely poor situation were built. Two houses were built in Neuquén with volunteers from the Alto Valle de Río Negro and Neuquén Branches, 1 house in Córdoba and 4 houses in the province of Buenos Aires. Some 90 volunteers took part in this program. Besides, the Bank donated another 7 houses to Un Techo Para Mi País, to be built by volunteers from that organization and from high schools.

Support to Social Economy Local Development

As a Bank with wide geographical presence throughout the country, we supported several local development initiatives, fostering entrepreneurship and strengthening regional social economies. In this sense, several actions were promoted, such as:

- Support to programs organized by various national universities and their outreach areas.
- Junior Achievement Tucumán: the XIII Foro de Emprendedores (XIIIth Entrepreneur Forum) was supported, which brought 600 students from 60 high schools together to share experiences related to successful ventures undertaken by Tucuman individuals and in the rest of the country.
- We worked with Junior Achievement in Córdoba and Santa Fe in the Socios por Un Día program, in which students graduating from high school and freshmen share a working day with the Bank's employees, so as to have a glimpse into the world of labor.
- IV RADIM Microfinance Sessions: together with SME Banking these sessions were supported and the first meetings with other banks were held in order to perform market surveys and advance into the creation of a second level financial entity for microfinance institutions that are members of the network.
- Fundación Impulsar: the productive projects created by three young entrepreneurs selected by the foundation were sponsored. A tutor who is a Bank's employee was assigned to each entrepreneur.
- For the third year in a row the Bank was the main sponsor of "Concurso Nosotros Queremos...", a contest organized by Inclusión Social Sustentable in Córdoba and Mendoza, in which more than 600 schools and 2,400 students take part, with social and environmental projects.

CSR Promotion

In the search of promoting and spreading the CSR management model, the Bank renewed its membership in the Argentine Institute of Corporate Social Responsibility (IARSE) and continued taking part and consolidating its institutional representation in the main CSR working sessions.

In 2011, the IARSE II International CSR Conference, the 2nd CSR National Forum organized by Red Argentina de RSE, and the 12th Meeting of RSE and Sustainability Managers organized by IARSE were sponsored. The meeting was held at the Bank's auditorium and more than 50 managers and leaders of CSR and sustainable management of first-class companies attended.

The Intranet and corporate website included information on the CSR programs promoted by the Bank, in order to make them known to several interest groups.

Finally, the Fourth Report on Social Responsibility was made, including the Bank's main actions on sustainability in the economic, social, and environmental fields.

Banco Patagonia Museum

In 2011, the Bank continued with the development of an Institutional Museum composed of an outstanding collection of items and documents which rescue the memory of organizations that predated our bank. Several guided visits were given to our customers, employees and educational institutions.

The MostrARTE Program was implemented, whereby our organization provides a room at the Bank's Museum to employees who want to exhibit their artistic production.

7 □ CORPORATE GOVERNMENT

The Bank, according to Resolutions 516/07 and 544/08 issued by the Argentine Securities Commission, is attaching the Corporate Governance Code as Exhibit I to this Annual Report.

8 □ CONTROLLED COMPANIES

The Bank holds control on the 4 (four) companies described below:

- **Patagonia Inversora S.A. Sociedad Gerente de Fondos Comunes de Inversión** channels the management of mutual funds business. Mutual funds are traded exclusively by the Bank, which at the same time operates as the depository company for the funds.
- **Patagonia Valores S.A. Sociedad de Bolsa** (a stock broking company), which deals with securities trading on the Buenos Aires Securities Market. The company is a shareholder of that Market, with one share entitling it to operate as a broker. The company renders services to the Bank and its customers, broadening the offer of products and playing an active role in transactions for the purchase/sale of securities, as well as the placement and subsequent sale of financial trusts and other securities.
- **Banco Patagonia (Uruguay) S.A.I.F.E.**, is a corporation organized in Uruguay with nominative book-entry shares, engaged in financial brokerage exclusively in Uruguay for non-residents and in currencies other than Uruguayan pesos, performing its commercial and administrative activities with the specific above-mentioned characteristics, under the supervision of the Central Bank of Uruguay. In May 2011, the Board of Directors approved the conversion of the institution into a Bank, pursuant to the provisions of Uruguayan Law No. 15,332 and requested the relevant authorization from the BCRA, the Uruguayan Ministry of Economy and Finance and the Uruguayan Central Bank. On this date, the authorizations are being processed.
- **GPAT Compañía Financiera S.A.** performs activities that include the extension of auto loans to private customers (both individuals and legal persons) for the purchase of new and used cars, mainly those sold by dealers making part of the General Motors de Argentina S.R.L. network, and the rendering of administration services of the portfolio of credits granted by Banco Patagonia to GM dealers.

The Bank is the central planner of the main policies that define the business of the above companies with regard to decision making on the volume of their businesses, new services to be offered, etc. During the 2011 financial year, the above companies complied with their objectives of rendering complementary services to those developed by the Bank and it is expected that they will continue to do so in the same manner during the forthcoming year.

Note 9 to the Bank's Financial Statements details the equity balances and income/loss for transactions carried out with the controlled companies, which were all performed under market conditions.

□ PATAGONIA INVERSORA S.A. Sociedad Gerente de Fondos Comunes de Inversión

The Mutual Fund Investment business kept growing in spite of the impact of the international economic and financial crisis. Total managed equity rose by 42.1%, reaching ARS 29.275 billion as of the end of 2011.

Concerning investment composition per type of Fund, by the end of 2011 the net assets administered as term and cash Funds accounted for 40.0% of the total, as compared to 44.0% in 2010. Fixed income funds continued the trend of last years, and their market share increased by 63.0%.

As of December 31, 2011, the company had managed net assets in the amount of ARS 553.7 million, ranking in the seventeenth position in the Mutual Funds Ranking, and recorded profits in the amount of ARS 2.5 million.

The main changes in 2011 were an increase of nearly 45.6% in management fees, a reduction of 18.4% in financial income and holding gains on financial assets, and a 23.2% increase in operating expenses.

□ PATAGONIA VALORES S.A. Sociedad de Bolsa

The Merval index had a poor performance over the year, and closed with a 30% drop, with some of the securities losing more than 50% of their value during the year.

Actual volume increased by 17% as compared to 2010, while net aggregate volume reached ARS 207.805 billion, with government securities accounting for a great part of this volume. Negotiated stock volume was ARS 13.579 billion, an 8.8% reduction as compared to 2010.

As it appears from the statement of income, this financial year resulted in a slight loss, mainly due to reduced traded volumes and reduced financial income and holding gains generated by the Company's investment portfolio, as well as by higher operating expenses.

□ **BANCO PATAGONIA (URUGUAY) S.A.I.F.E.**

In 2011, the Uruguayan subsidiary recorded ARS 1.7 million income (equivalent to USD 0.4 million). Income for the year records a 3.6% ROE measured on shareholders' equity at the beginning of the year.

The Company holds assets for USD 78.5 million and liabilities for USD 66.8 million. Shareholders' equity at fiscal year-end amounted to USD 11.6 million, maintaining a capital excess, in terms of the required capital, and calculated on the basis of risk assets, of USD 6.9 million as per the rules of the Central Bank of Uruguay.

□ **GPAT COMPAÑIA FINANCIERA S.A.**

Evolution of GPAT S.A.'s operations is closely related to the strong and sustained growth in the automobile industry over the last years, which became one of the pillars of the Argentine economy growth.

In 2011 new license numbers hit an all-time record for the Argentine automobile industry, with 857,983 licensed vehicles, accounting for a year-over-year increase of 29.5%.

In this context, the company's FY2011 hit a record regarding the volume of loans granted to buyers, which totaled 29,019 auto loans for an amount of ARS 896.5 million. GPAT S.A.'s market share was higher than 60% regarding loans for Chevrolet cars, turning into the leading financing agency for the brand.

As to wholesale financing, GPAT, in its capacity as manager of credit lines granted by **Banco Patagonia**, due to the automotive industry growth and GMA's market share, had an increase in the number of vehicles sent to dealers and therefore managed by GPAT. Total volume of units managed in 2011 was 117,000, amounting to more than ARS 7 million, accounting for a 36% increase as compared to 2010.

As of December 31, 2011, GPAT holds Assets for ARS 972.1 million and its Shareholders' Equity amounts to ARS 230.7 million. Furthermore, profits rose to ARS 43.3 million.

9 □ **BANCO DO BRASIL**

In April 2011, Banco do Brasil became the majority shareholder, with a 58.96% ownership interest on the outstanding capital and votes per share of Banco Patagonia as of December 31, 2011.

Banco do Brasil was first banking institution to operate in Brazil, with a history of more than 200 years in the neighboring country's financial system and has the largest geographical distribution network, operating more than 5050 branches and more than 43,500 ATMs.

It is the most important financial institution in Latin America. Banco do Brasil serves every segment of the financial market: banking, credit cards, management of third-party resources, insurance, and capital markets. The Bank offers a significant portfolio of products and services.

Banco do Brasil employs nearly 107,000 people who make every effort to meet the demands of more than 55.5 million customers.

Information on Banco do Brasil's statement of financial position is available in its website www.bb.com.br.

10 □ **PROFIT DISTRIBUTION PROJECT**

The following Profit Distribution Project for the year ended on December 31, 2011 is submitted for the Shareholders' consideration:

Item	Amount
Retained Earnings To Legal Reserve (20% of 612,246)	1,119,707 122,449
Balance to be distributed - at the disposal of the Shareholders' Meeting	997,258

The Board of Directors thanks customers, suppliers, financial institutions, and specially, members of the bank staff for their support and effective cooperation during this year.

Buenos Aires, January 30, 2012

THE BOARD OF DIRECTORS

REPORT ON THE CORPORATE GOVERNANCE CODE**Exhibit V to Chapter XXIII of the CNV Regulations (2001 consolidated text)**

SCOPE:

The Argentine Securities Commission (CNV), through General Resolution 516/07, approved a set of minimum contents for a Code of Corporate Governance applicable to publicly traded companies. The recommendation is based on the understanding that it is convenient to promote in administrators the habit of developing information that is specifically related to the Board management, for the benefit of all shareholders and the market in general.

Companies must explain in a report attached to the Board's Annual Report any lack of total or partial adoption of the provisions related to the subjects included as minimum contents ("comply or explain" principle).

Banco Patagonia S.A., in accordance with the provisions of CNV Resolutions 516/07 and 544/08, is pleased to inform the manner in which the Bank complies with each of the recommendations.

1 Issuer – Business Group Relationship

Banco Patagonia S.A. is a corporation organized under the provisions of Law 19.550 of Business Companies, as amended, and its shares are listed at the Buenos Aires Stock Exchange under the public offering system; therefore, the Bank is governed by the above-mentioned Argentine Securities Commission (CNV) regulations.

In April 2011, Banco do Brasil became the majority shareholder, with a 58.96% ownership interest.

Banco do Brasil was first banking institution to operate in Brazil, with a history of more than 200 years in the neighboring country's financial system and has the largest geographical distribution network, operating more than 5050 branches and more than 43,500 ATMs.

It is the most important financial institution in Latin America. Banco do Brasil serves every segment of the financial market: banking, credit cards, management of third-party resources, insurance, and capital markets. The Bank offers a significant portfolio of products and services.

In order to harmonize corporate government policies with the Business Group, Banco Patagonia will adopt the guidelines established by its majority shareholder, and will make this Code of Corporate Governance to its subsidiaries, inviting them to adopt concepts and guidelines that are similar to the contents hereof.

Furthermore, Banco Patagonia will provide its subsidiaries with the tools that are necessary to implement these corporate government policies and put them in practice.

The Company is a financial institution under the supervision of the Central Bank of Argentina ("BCRA"), also governed by the provisions of the Financial Entities Law and regulations issued by this controlling authority.

In this regard, these provisions forbid the performance of transactions with directors, administrators or companies or individuals related to them under preferential conditions. Within this context, the definition of relationship is based on the control of corporate will, measured by shareholding structure, majority of common directors or actual or potential membership in executive bodies.

Thus, any financial assistance granted at any time to related companies or persons is subject to certain limits established as a ratio of Accountable Equity Responsibilities (RPC) and the "CAMELBIG" rating system (applied by the BCRA Foreign Exchange and Financial Institutions Regulatory Agency), and to the type of financing in question.

The above-mentioned limits include the following:

a) For each related client:

General:

(i) Guaranteed transactions: 10% RPC and

(ii) Non-Guaranteed transactions: 5% RPC

Furthermore, specific limits are defined for companies rendering services that are complementary to the financial entity's activity in accordance with the specific activity performed by the related company.

b) For all related clients: 20%.

c) Total financing to related clients plus total fixed assets: 100%.

Besides, in compliance with BCRA regulations, the Bank must report —on a half-yearly basis and at any time a change occurs— the list of companies or persons related to the Company. Additionally, any financing assistance extended to said related parties must be reported at the time of submission of quarterly and annual financial statements.

Considering the above, the Board of Directors understands it is in compliance with the requirements established in CNV General Resolution 516/2007 as regards relations with the issuer and the business group.

2. Inclusion of provisions of the Code of Corporate Governance in the Company's By-laws

The Board of Directors understands it is not necessary to reflect in the Company's By-laws, either in whole or in part, the provisions of the Code of Corporate Governance (Exhibit I to the Argentine Securities Commission General Resolution 516/07).

The reason is that Board members' duties are already established in the Bank's By-laws and that the Board has approved the Bank's Code of Ethics, which includes the guidelines to be followed by all members of the organization to avoid conflicts of interest.

Furthermore, in compliance with BCRA regulations, the Bank issues a semi-annual report with a detail of its related parties and, at the time of submission of its quarterly financial statements, the Bank reports the amounts of credit assistance granted to related parties.

By reason of the above, compliance with the recommendations included in CNV General Resolution 516/2007 is assured.

BOARD OF DIRECTORS – GENERAL PROVISIONS

3. Responsibility for Corporate Strategy

The Board of Directors is in charge of the administration of the Bank and takes all decisions related to this matter, as well as those decisions that fall within its competence in accordance with the Business Companies Law, the Bank's By-laws and other applicable regulations. Thus, the Board is responsible for the execution of resolutions adopted by the Shareholders' Meetings and for the performance of activities specially delegated into it by the shareholders.

In this context, the Board of Directors is responsible for establishing the business strategy, and must approve any policies oriented to compliance with such strategy, namely:

- a) the Bank's Business Plan, establishing management goals and annual budgets for the next three financial years, in compliance with BCRA regulations;
- b) the investment and financing policy;
- c) the corporate government policy as defined by regulations in force;
- d) the Corporate Social Responsibility Annual Report, including the actions and programs carried out by the Bank in support of education, culture, sports, environment and specific actions of corporate voluntary services; any expense and investment that is necessary must be included in the Business Plan referred to in item a);
- e) the policies for risk control, as well as any other policy intended to periodically follow up on internal information and monitoring systems; The Bank has implemented risk management policies (credit, operational, etc. risks) that comply with BCRA regulations.
- f) To develop continuous training programs for directors and senior executives. To this end, the Bank develops specific training programs for senior executives, while Directors take an active part in various industry and bank association forums, as well as conferences and events led by economists and banking specialists.

Considering the above, the Bank complies with the provisions of the Code of Corporate Governance as regards the Board of Directors' responsibility for the Company's strategy.

4. Management Control

In order to monitor the Bank's management, the Board verifies the implementation of strategies and policies, adjustment to the budget and to the operations plan, and monitors the managers' performance as regards the established goals and planned revenue.

In order to comply with this responsibility, the Board receives a monthly Report on Key Performance Indicators with a command board utility that enables to view the evolution of the budget main variables and analyze any deviation. Furthermore, the Board, in each of its meetings, reviews the minutes of the meetings held by the various Bank committees and the monthly balance sheets to be submitted to the BCRA.

By reason of the above, compliance with the provisions of the Code of Corporate Governance regarding management control by the Board of Directors is assured.

5. Information and Internal Control – Risk Management

The Bank has implemented internal control and risk management policies in line with best practices on these matters, such as:

- Internal Control:

The internal control consists of five interrelated components. Additional details on them are provided below:

a) Control Environment.

Control environment establishes the Bank's operating method and influences on the control awareness of its employees. Some of the elements that make up this control environment include integrity, ethical values, and qualifications of the Bank's staff; the Management's style and operating methods; the way the Management assigns powers and duties, organizes and trains its staff; and the attention and guidance provided by the Board of Directors.

b) Risk Assessment.

The Bank faces a series of risks, both external and internal, that must be assessed. Risk assessment refers to the procedures and mechanisms established by the Bank for the identification and analysis of significant risks derived from changes in the economic, financial, regulatory, and operating conditions that have an impact on the achievement of the Bank's business goals.

c) Control Activities.

Control activities are the policies and procedures that help secure the execution of the guidelines developed by Management. This implies taking the necessary actions to face the risks involved in the achievement of the Bank's goals. Control activities are performed throughout the Bank, i.e., at all levels and departments. They include activities such as: approvals, authorizations, verifications, reconciliations, operating performance reviews, assets security, and task segregation.

The Bank has written policies and procedures in place on its main processes and transactions, either in hard copies (handbooks of organization and procedure) or on electronic means (Intranet), making them available to the whole staff through the Organization and Processes Area.

d) Information and Communication.

This control focuses on the kind and quality of the information generated by the Bank, which must be identified, captured, and disclosed properly and timely so that the relevant staff may comply with their duties.

This information refers to internally generated data and information related to external affairs. Both are necessary for a proper decision-making process and the filing of reports with third parties.

e) Monitoring.

The internal control system is monitored through a process that assesses the system performance quality over the course of time. This is achieved by monitoring activities under way, by separate assessments or through a combination of both.

➤ Risk Management.

Any risks inherent to the Bank's operation are managed through a continuous process of risk identification, measurement and control which is subject to limits and other risk controls. The main types of risks that the Bank is exposed to are those related to credit risk, liquidity risk, market risk, interest rate and operational risk.

The Entity is implementing a comprehensive risk management process in accordance with the guidelines suggested in Communiqué "A" 5203 and along the lines of best banking practices, as recommended by the Basel Committee.

On October 31, 2011 the Risk Management Executive Office was created, with responsibility on comprehensive risk management for Banco Patagonia and its Controlled Companies, reporting to the Board of Directors so as to guarantee independence from business areas. Under this Executive Office, with the purpose of identifying, assessing, monitoring and mitigating any significant risks, the following areas can be found:

a) Financial Risk Management: in charge of managing market, rate, liquidity and credit risks;

b) Operational Risk and Regulatory Compliance Management: in charge of supervising regulatory compliance, managing operational and IT risk and implementing the necessary policies and procedures to secure compliance with regulations in force on the control and prevention of money laundering and the financing of terrorism.

Besides, the Board of Directors, in its meeting held on December 12, 2011, approved the creation of the Global Risk Committee, composed of one Vice-president, the Operations and Technology Area Assistant Manager, the Administration and Finance Area General Assistant Manager and the Risk Management Executive Manager.

The main purpose of this Committee will be to propose to the Board the strategies to manage market, rate, liquidity and credit risks, as well as to establish the global exposure limits to said risks. Besides, the Committee will be informed of the positions on each risk and compliance with policies. The scope of its duties will extend to the Bank and its affiliated companies.

The following are the policies and processes aimed at identifying, assessing, controlling and mitigating each one of the above-mentioned main risks:

➤ Credit Risk.

The Board of Directors approves the Bank's credit policy and credit assessment policy in order to provide a framework for the creation of business and attain at the same time an adequate risk-benefit ratio. The Bank has procedural manuals that contain guidelines oriented to achieving the following goals:

- a) reaching an adequate portfolio segmentation, by client type and economic sector;
- b) boosting the use of the risk analysis and assessment tools that best adjust to the customer's profile;
- c) setting consistent standards for loan granting, following conservative parameters based on the customer's solvency, cash flows and profitability in the case of companies, and income and assets in the case of individuals;
- d) setting limits to individual powers for loan granting on the basis of amounts, promoting the existence of specific committees that, within their sphere of competence, are in charge of defining credit assistance levels;
- e) optimizing the quality of risks assumed, having appropriate guarantees according to the loan term and the level of risk involved; and
- f) monitoring the loan portfolio and the level of customers' compliance on a permanent basis.

The procedural manual developed by the Bank details the guidelines to be followed by business officers to prepare the loan file in order to ensure an adequate transaction implementation and to collect the customer's documentation in order to facilitate loan recovery, in the event of default. The Bank has standardized the initial collection process stages for instances of default, through different measures (telephone calls, letters, telegrams, etc.), which are carried out by the agency that established the first contact with the client.

➤ Liquidity Risk

In order to reduce the liquidity risk arising out of the uncertainty to which the Bank may be exposed as regards its capacity to honor the financial liabilities assumed with its customers in due time and manner, a policy has been established, the main aspects of which are as follows:

Assets: A high-liquidity assets portfolio will be maintained to cover at least 5% of total liabilities, comprising deposits, bonds issued by the Bank, repurchase agreements and financial and interbank loans taken, maturing within 90 days.

Liabilities: In order to minimize the undesired effects of illiquidity deriving from an eventual withdrawal of deposits and the repayment of interbank loans taken, the Bank's strategy is to diversify the structure of liabilities, as regards sources and instruments. In this sense, the purpose is to attract funds from as many customers and industries as possible, offering the greatest diversity of financial instruments. For these purposes, the Entity has implemented the following policies:

- a) Lending priority to the attraction of retail deposits in order to have an atomized portfolio, avoiding the risk of concentrating the portfolio in a few investors.
- b) Participation in the portfolio of certificates of deposit held by institutional investors (foreign investors, mutual funds and insurance companies) is not to exceed 15% of total liabilities.
- c) Certificates of deposit taken shall not exceed 5% of total fixed term deposits, or a fixed amount determined by the Bank.
- d) No investor may hold fixed term deposits for an amount exceeding 10% of the total deposits portfolio.

➤ Market Risk

This is the risk of loss that arises from fluctuations in financial market variables, such as interest rates, exchange rates and other rates or prices. This risk is a consequence of transactions related to loans, foreign trade and investments. In order to measure this risk, the Bank uses the value at risk ("VaR") method as established by BCRA regulations in order to determine the minimum capital required for market risk purposes for those assets usually negotiated in institutionalized markets.

Pursuant to current regulations, the BCRA has capital requirements to cover the expected loss established in accordance with the described methodology on a daily basis. The Bank's value at risk varies according to the portfolio structure of assets exposed to market risk.

As regards the interest rate risk –i.e., the risk of loss to which a company is exposed due to variations in the

market interest rate, the mismatch of financial assets and liabilities– the Bank has a Finance Committee that is in charge of issues related to the management of the Bank's financial assets and liabilities. The matters analyzed at such committee meetings include the review of the sensitivity analysis regarding variations in interest rate levels, which is carried out considering the Bank's assets and liabilities accruing interest and, for that purpose, taking into account the segments in pesos, pesos adjusted by CER and foreign currency.

➤ Operational Risk

On April 14, 2008, the BCRA issued Communiqué "A" 4,793, which approved the "Guidelines for Operational Risk Management at Financial Institutions". This regulation establishes general guidelines for institutions to implement a system to manage the operational risk as a comprehensive discipline separate from the other risks, considering that such system must be proportional to the size and complexity of the financial institution involved.

To implement this management system according to the schedule established by the BCRA, the Bank took the following steps:

- a) **Organizational structure:** The Bank established the Operational Risk and Compliance Management and formed the Operational Risk Committee, composed of one director, the Bank's main executives and the above-mentioned Management.
- b) **Policies:** The Bank's Board of Directors approved the "Policy for Operational Risk Management", which defines the main concepts, roles and responsibilities of the Board of Directors, the Operational Risk Committee, the Operational Risk Management and all the areas involved in this risk management. The main tools that will be used to identify, evaluate, measure and monitor this risk were described.
- c) **Map of Processes / Subprocesses and Activities:** The Bank developed the general map of processes / subprocesses and activities that will serve as a basis to guide the relevant officers at the time of performing risk self-assessments.
- d) **Systems:** A system was developed and has been fully implemented including all aspects of the Bank's risk management (risk self-assessments, action plan and risk indicator management, loss databases, etc.).
- e) **Procedures:** Procedures to record operational losses, to perform risk self-assessments, define risk indicators and develop action plans in those cases where, due to the exposure level, the tolerance limits set out in the policies are exceeded.

➤ IT Risk:

On March 29, 2010, the Bank's Board of Directors approved the "Policy for Information Technology Risk Management", a document that sets out the main definitions and concepts, roles and responsibilities of various areas in the management of this specific risk. Furthermore, the document sets out the methodology to perform a classification of information assets and to analyze and manage the risk in accordance with the defined tolerance levels. Pursuant to this policy, the purpose of performing risk analysis on said assets is to determine how the information technology risk may affect the Bank's processes, especially those that are considered critical, and to provide the necessary information to define the assets to be protected and thus achieve higher efficiency levels in the allocation of technological resources.

By reason of the above, compliance with the recommendations on this matter included in CNV General Resolution 516/2007 is assured.

6. Audit Committee

The Bank established an Audit Committee – CNV composed in accordance with the Argentine Securities Commission regulations. Members of said committee may be proposed by any of the Board members, subject to the independence requirements established by the above-mentioned agency.

Additionally, the Bank has established an Audit Committee – BCRA, the members and functions of which are in accordance with the Central Bank of Argentina regulations.

By reason of the above, compliance with the information requirement included in CNV General Resolution 516/2007 is assured.

7. Number of Board Members

The Bank's By-laws provide that the number of regular members will be established on an annual basis by the Shareholders' Meeting, between a minimum of 7 and a maximum of 9 members, to be elected for a term of 3 fiscal years, with the right to be reelected for an indefinite number of terms.

Furthermore, it is established that one regular director shall be appointed by the holder of Class "A" common shares (independently of the corporate capital represented by that class of shares); the remaining regular directors shall be appointed by holders of Class "B" common shares.

Alternate directors shall replace regular directors, representing class "B" shares, in the event of vacancy, leave of absence, temporary impediment or absence. To this end, a regular director's mere absence to a Board meeting shall be considered as temporary vacancy, without further notice, and the corresponding alternate director shall temporarily substitute the absent director.

The meeting may also establish the order in which alternates directors shall hold office, and may also resolve that a given alternate director shall replace only a give regular director, and that this regular director shall be replaced only by a given alternate director.

At present, no director has executive functions in the Bank, since those responsibilities are in charge of the various management areas.

The Board includes a minimum of 2 independent directors, in accordance with the criteria defined by the Argentine Securities Commission.

In order to perform its activities in an efficient manner, the Bank has created several committees that handle specific matters and in which directors take part.

Since the Board understands that the number of Board members is suitable vis-a-vis the size and complexity of the Bank's business, that there is an adequate number of independent Directors and that the various committees composed by directors operate efficiently, the recommendations on this matter included in CNV General Resolution 516/2007 are observed.

8. Composition of the Board

BCRA regulations establish that at least 80% of Board members must have experience in financial activities, and that the directors' background information must be submitted to the Central Bank of Argentina for approval at least 60 days in advance of the date established for the holding of the Shareholders' Meeting that will consider their appointment, or within 10 days after their appointment. Until the Central Bank of Argentina does not advise the financial institution on approval of the proposed director, said director may not take office. Notwithstanding this, the Director appointed by class "A" common shares —province of Rio Negro— may take office while the BCRA processes the above-mentioned authorization, and appointment of such Director shall be considered conditional upon BCRA authorization, the validity of acts performed by such Director during that period notwithstanding, in accordance with the terms of BCRA Communiqué A 4099.

Additionally, an individual who has a disqualification or incompatibility established pursuant to the Business Companies Law and the Financial Institutions Law cannot be a member of the Board of Directors. The Bank's By-laws forbid that any individual who has an employment or professional relationship, either paid or not, at the National, Provincial or Local Public Administration, except in the case of the teaching profession, or who is a director or administrator of a legal person that is in default with any financial institution may become a member of the Board of Directors.

Considering the specific regulations on this matter issued by BCRA, providing for a high degree of specialization on financial matters by Board members, and the requirements that said officers may not have any of the above-mentioned disqualifications or incompatibilities, it is understood that the Bank complies with the recommendations on the composition of the Board established by CNV General Resolution 516/2007; note should be made that the Board might be composed of former officers, provided they comply with current requirements.

9. Participation in Various Companies

Pursuant to provisions of the Business Companies Act, an individual who participates in activities that compete with the company may not perform as Director. The Bank's policy in this matter provides that the position of Director may not be held by anyone holding a position in the Board of Directors of any financial entity in the country, or of companies that control, or are under the control of, any financial entities in the country, or render advisory services thereto. Furthermore, section 272 of the Business Companies Law provides that in case a director has a conflict of interest with the Bank, he or she must disclose said interest to the Board and statutory auditors and abstain in the discussion of that matter, under the penalty of incurring the liability established in section 59 of that Law.

By reason of the above, compliance with the recommendations included in CNV General Resolution 516/2007 is assured.

10. Assessment of Directors' Performance

Considering the composition of the Bank's Board of Directors, and the fact that its members take part in several committees and most of them have daily contact with each other, it is not deemed necessary to assess their own performance, the annual evaluation of their activities by the Shareholders' Meeting notwithstanding.

Besides, in the case of financial institutions, the Foreign Exchange and Financial Institutions Regulatory Agency carries out a regular rating of financial entities through the CAMELBIG rating system based on eight components, namely:

- a) Capital adequacy and quality (C);
- b) Assets quality (A);
- c) Market risks sensitivity (M);
- d) Earnings stability and quality (E); and
- e) Liquidity level (L);
- f) Business management capacity (B);
- g) Internal controls quality (I);
- h) General management capacity (G)-

Consequently, when reviewing the business management capacity (B) and the general management capacity (G), the Central Bank of Argentina provides an objective evaluation of the aspects related to the Board performance. Notwithstanding the above, the BCRA also weighs the performance of the Board of Directors and Senior Management on each specific aspect when performing the review of this rating system other elements. By virtue of the various evaluation mechanisms applied to Directors, it is understood that an assessment of Directors is not necessary and therefore the self-assessment recommendation established in CNV General Resolution 516/07 is not complied with.

11. Directors' Training and Development

As explained in item 8., 80% of Board members must have a high degree of specialization and expertise on financial matters to BCRA's satisfaction, so it can be concluded that Board members have adequate qualifications to perform their duties.

Furthermore, in order to keep their proficiency, and considering item 3.f), the Bank regularly organizes conferences with economists and professional people specialized in banking and financial matters, and our officers participate in several industry forums and associations.

By reason of the above, it is understood that the provisions of CNV General Resolution 516/2007 on Directors' training and development are partially fulfilled.

DIRECTORS' INDEPENDENCE

12. Independent Directors

The Board of Directors is required to consider the need to disclose a sufficient reason to consider a potential candidate as independent director.

The Entity understands that this requirement is fulfilled in accordance with the definitions of independence included in CNV Regulations and Resolutions.

By reason of the above, compliance with the recommendations on Directors' independence included in CNV General Resolution 516/07 is assured.

13. Appointment of Senior Executives

The Board of Directors does not consider it necessary to disclose the reasons on which the selection, proposal and/or appointment of senior executives is based, or the widespread public information on them since, in the case of financial institutions, BCRA regulations establish that the general manager, agency managers and other managers who have decision-making powers directly related to the financial activity must submit credentials that evidence knowledge and experience on those activities, and that background is assessed by the Central Bank.

Therefore, the appointment of said officers is evaluated on the basis of objective criteria by the regulating body, and those criteria are public since they are embodied in BCRA regulations.

By reason of the above considerations, it is understood that compliance with the provisions of CNV General Resolution 516/2007 on this matter is assured.

14. Proportion of Independent Directors

The Board of Directors recommends the Shareholders' Meeting to keep a proportion of independent directors as necessary in the committees in which their membership is required by CNV regulations.

By reason of the above, compliance with the recommendations on this matter included in CNV General Resolution 516/2007 is assured.

15. Independent Directors' Meeting

Independent directors have the possibility to meet whenever they deem it necessary, and enjoy the fullest range of action, being entitled to propose any matter for inclusion in the agenda of Board meetings.

Independent directors may call whoever they consider appropriate, such as other directors, members of the Statutory Auditors' Committee, senior officers, etc.

By reason of the above, compliance with the recommendations included in CNV General Resolution 516/2007 is assured.

SHAREHOLDERS RELATIONS

16. Information to Shareholders

The Bank organizes quarterly conference calls in order to inform investors on the news and results of each quarter.

Likewise, the Bank's website (www.bancopatagonia.com.ar) includes updated information on its shareholders' equity and financial situation, besides the information that the Bank regularly presents to the Argentine Securities Commission, self-regulated entities in Argentina and in the countries where the Bank's securities are listed, and to the Central Bank of Argentina.

By reason of the above, compliance with the recommendations included in CNV General Resolution 516/2007 is assured.

17. Assistance to Shareholders' Concerns and Queries

The Bank has included an Investor Relations area in its organizational structure to receive and handle investors' concerns by means of reports to the Board of Directors.

By reason of the above, compliance with the recommendations on shareholders' concerns included in CNV General Resolution 516/2007 is assured.

18. Minority Shareholders' Participation in Meetings

The Board of Directors considers it convenient to promote the shareholders' participation in meetings and applies the mechanisms established in current local regulations on publication of calls to meetings and disclosure of information, and the special procedures established for investors domiciled abroad.

Thus, special mechanisms for investors domiciled abroad are included in the agreements with stock deposit certificates (BDRs in Brazil and ADRs in the United States) custody agents in order to facilitate their participation at shareholders' meetings. Basically, between 30 to 45 days in advance of the date of the meeting, custody agents (Banco Itaú in Brazil and Bank of New York in the United States) send a form to investors to learn their opinion on the items in the agenda to be discussed.

By reason of the above, compliance with the recommendations on this matter included in CNV General Resolution 516/2007 is assured.

19. Corporate Control Market

The Bank chose to join the compulsory purchase public offering regime established in the Public Offering Transparency System provided for in Decree 677/01. This regime provides that any party that intends to acquire, either directly or indirectly, a "significant interest" (equivalent to or higher than 35% of the Bank's capital) or to increase its ownership interest in case that party already holds more than 35% of the Bank's capital or take over control of the Bank, shall follow the procedure established by the Argentine Securities Commission for this purpose.

Additionally, current BCRA regulations provide an approval procedure for any party that intends to acquire more than 5% of any bank's capital.

By reason of the above, it is understood that compliance with the recommendations of the Code of Corporate Governance on Control Market is assured.

20. Dividend Policy

The Bank has distributed dividends in the last seven financial years, such as it is mentioned in the Annual Report corresponding to the relevant fiscal years, and intends to keep such policy in the future. The declaration, amount and payment of dividends are established by the vote of a majority of shareholders in a Regular Shareholders' Meeting, on the basis of the proposal sent by the Bank's Board of Directors. It should be noted that the Bank's Board of Directors has established a policy of proposing to the Shareholders' Meeting distribution of 50% of the net realized income of the year as dividend, to be paid in cash after deduction of any items mentioned in the by-laws, taking into account the income for the year, the Bank's financial standing at the time, its liquidity requirements and other factors the Board and Shareholders may deem relevant, securing the Bank's credit standing. The remaining amount that is not allocated to any reserve shall be posted to the retained earnings account, to distribution of stock dividends or to other ends, to be timely proposed by the Board and approved by the Shareholders' Meeting.

In this regard, it should be mentioned that BCRA regulations establish that a special procedure is to be applied in order to determine the distributable earnings and prove that distribution of dividends will not affect the entity's solvency and liquidity; such distribution must be previously approved by the BCRA.

By reason of the above, it is understood that the Bank has a policy on this matter and is in compliance with the regulations in force set by the Central Bank of Argentina on determination of

the distributable income; therefore, the recommendations of the CNV General Resolution 516/2007 on dividend policy are complied with.

RELATION WITH THE COMMUNITY

21. Internet Communications

The Bank has a website, www.bancopatagonia.com.ar, where it posts updated information on its products and services, shareholders' equity and financial position and additionally includes a "suggestions box" to handle all kinds of concerns and questions asked by clients and non-clients.

By reason of the above, compliance with the recommendations on Internet communications included in CNV General Resolution 516/2007 is assured.

22. Website Requirements

The Bank guarantees that the information posted to its website complies with the highest standards of confidentiality and integrity, and with the regulations governing information preservation and recording.

By reason of the above, compliance with the recommendations on this matter included in CNV General Resolution 516/2007 is assured.

COMMITTEES

23. Independent Director as Chairman of Audit Committee - CNV

Following the policy adopted by the Board of Directors, independent directors hold the office of President and Vice-President of the "Audit Committee – CNV".

By reason of the above, compliance with the recommendations on this matter included in CNV General Resolution 516/2007 is assured.

24. Statutory Auditors and/or External Auditors Rotation

Pursuant to BCRA regulations, the external audit shall be performed by Certified Public Accountants who are appointed by the financial entities that are in a position to do so or else are registered in the "Auditors Registry" kept by the BCRA Foreign Exchange and Financial Institutions Regulatory Agency. Additionally, regulations provide that auditors may not work simultaneously for more than one financial institution and that they may not act as auditors for more than five consecutive fiscal years in any given institution.

Furthermore, pursuant to the provisions of Decree 677/01, sections 13 and 15, and BCRA regulations, the "Audit Committee – CNV" must perform an annual evaluation of the external auditor and working team's capabilities, independence and performance.

As regards the Statutory Audit Committee, the Board understands that familiarity with the Bank's activities is paramount, and therefore it has not implemented a policy on strict member turnover. Considering the statutory auditors' term of office is only one year, at least one of the members of this Committee is reelected in order to maintain a sound knowledge of the corporate background.

Therefore, it is understood that the CNV General Resolution 516/07 recommendations on the rotation of Statutory Auditors and/or External Auditors is partially complied with.

25. Statutory Auditor's and External Auditor's Twofold Nature

Pursuant to the Bank's policy, at present none of the members of the Statutory Audit Committee has external audit duties.

By reason of the above, compliance with the recommendations on this matter included in CNV General Resolution 516/07 is assured.

26. Compensation Systems

Although the Board of Directors has not implemented yet a Compensations Committee with the features and functions provided in CNV General Resolution 516/07, it has considered that the main aspects related to compensation systems are included in several mechanisms in force, or else in the regulations that govern the Entity, or in BCRA regulations, the Bank's By-laws or internal policies established by the Bank's Board of Directors.

Pursuant to the applicable By-laws provisions, Directors' fees are stipulated each year by the Shareholders' Meeting, within the limits imposed by the Business Companies Law. When deciding such fees, the responsibilities, time devoted to performance of duties, experience, and professional reputation are taken into account. There is no policy that grants other kind of benefits such as an ownership interest in the shareholders' equity.

In relation to senior management compensations (as defined in the Code of Corporate Governance), the Bank's

Board has approved a policy establishing that, at least once a year, the Executive Office of Human Resources should propose to the Board the compensation amount to be paid to General Assistant Managers, Senior Managers and Managers that report directly to the Board, taking into account the salaries paid by similar companies and the market position the Bank intends to achieve through that policy.

Finally, compensations to be agreed with the Bank's external auditors, remaining advisors and consultants are reviewed and approved by the areas with jurisdiction on the matter, and approval of the relevant expenses is processed in accordance with the current policy on powers approved by the Board.

By reason of the above, compliance with the recommendations on this matter included in CNV General Resolution 516/07 is assured.

27. Appointment and Corporate Governance Committee

In accordance with items 8. (Composition of the Board) and 13. (Appointment of Senior Executives), the Bank follows the guidelines established in BCRA regulations to appoint Board members or managers with decision-making powers on operative matters, for which they are the main responsible officers. Considering the above, the aspects related to the setting of guidelines for the appointment of such officers, which the Code of Corporate Governance assigns to the Appointment and Corporate Governance Committee, are defined in BCRA regulations.

Furthermore, for the purposes of composition of the various committees that report to the Board of Directors, the Board complies with regulations governing the composition of certain committees, which provide that a certain percentage of their members shall qualify as independent members, in accordance with the criteria established by the CNV and the BCRA.

By reason of the above, partial compliance with the recommendations included in CNV General Resolution 516/07 is assured.

28. Non-discrimination Policy on Board Composition

As regards the composition of the Board of Directors, the Bank strictly complies with the BCRA regulations mentioned in item 8. above. Additionally, it should be mentioned that the Bank's Code of Ethics, as approved by the Board, includes specific provisions to avoid discriminatory practices, which are also implemented throughout the organization, including the Board of Directors.

By reason of the above, compliance with the recommendations included in CNV General Resolution 516/07 is assured.

ITEM NO. 3: MANAGEMENT REPORT UNDER CNV REGULATIONS, CHAPTER XXIII, 11.6: Next, discussion on this item on the Agenda took place, and the President reminded the Directors present at the meeting that publicly traded companies are under the obligation to submit a Management Report along with their interim and annual financial statements, in accordance with current CNV regulations. The President further informed that a draft Management Report as of 12.31.11 had been requested to the Administration Manager and that said Report consisted of a summary of the Bank's activities and the main accounts in the Balance Sheet. After extensive discussion, the Management Report submitted for consideration is unanimously approved, filed as a support documentation and fully transcribed in the Book of "Financial Statements". It was further resolved to file it before the relevant control authorities. Also the Independent Auditors have prepared a report about the Management Report, being acknowledged.

ITEM No. 4: AUDIT COMMITTEE'S REPORT - CNV: The President informed that the Audit Committee – CNV has submitted for consideration by the attendees the report on matters falling under its jurisdiction, issued in accordance with the provisions of Decree No. 677/2001, and General Resolution No. 400/02, section 16, paragraph C, of the Argentine Securities Commission (CNV). After extensive discussion, the report under analysis is unanimously approved, filed as support documentation and fully transcribed in the Book of "Minutes of the Audit Committee – CNV" No. 1, duly registered with the IGJ (the Corporations Authority).

ITEM No. 5: CONSIDERATION OF FINANCIAL STATEMENTS AS OF 12/31/2011 FOR SUBMISSION IN BRAZIL: The President informed that the following documents will be submitted at the same time to local authorities and a free translation thereof into Portuguese to the Brazilian control authorities: Financial Statements, Annual Report and Information Review as of December 31, 2011. March 31, 2012 is the deadline for submission of the following documents, which are being prepared by the administrators:

- Annual Financial Statements as of 12/31/2011, prepared under international accounting standards (IFRS), in Spanish and in pesos (ARS) , with free translation into Portuguese;
- Conciliation of the Statement of Financial Position and Statement of Income as of 12/31/2011, prepared under accounting standards accepted in Brazil (Brazilian GAAP), in Portuguese and in reais (BRL).

After some discussion, all of the above is unanimously approved, and future deadlines for submission before the Brazilian control authorities are acknowledged.

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There being no further business to come before the meeting, the meeting was adjourned at 06.30 p.m.

Signatures: Jorge G.Stuart Milne, Joao C.de Nobrega Pecego, Claudemir A.Alledo, Carlos A.Giovanelli, Marcos D.Croceri, Juan D. Mazzón, Alberto M.Tenaillon.-----

Jorge G.Stuart Milne
Presidente

Joao C.de Nobrega Pecego
Vicepresidente