



ANNUAL REPORT

2016

ARGENTINA

SEDESA
SEGURO DE DEPÓSITOS S.A.



**ANNUAL REPORT AND BALANCE SHEET OF SEGURO DE DEPÓSITOS S.A.
AS OF DECEMBER 31, 2016**

SEDESA
SEGURO DE DEPÓSITOS S.A.

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MESSAGE FROM THE CHAIRMAN

It is my pleasure, as Chairman of the Company's Board of Directors, to submit the Annual Report and Financial Statements of Seguro de Depósitos S.A. (SEDESA) and the Deposit Guarantee Fund (DGF) that describe a summary of the activities developed, the improvements obtained and the aims reached by the Company during the fiscal year ended as of December 31, 2016.

On the basis of the results obtained during 2016, an increase on the net worth of the Deposit Guarantee Fund has been registered. This strengthening and the consequent increase of the Available Balance provide a solid and stable position in furtherance of our role as part of the financial safety net of our country.

Pursuant to the implementation of the improvement policy adopted by SEDESA in 2011, we have continued with the optimization of the Company's internal organization processes. During the year on which this Report is based, the training of resources was deepened and the actions to maintain the certification of the Quality Management System under the ISO 9001:2008 standard for the "Realization and sale of real state to integrate the available balance of the Deposit Guarantee Fund" were conducted. In accordance with the main concepts that lead the work performed, the recertification under the ISO 9001:2015 standards of the QUALITY MANAGEMENT SYSTEM (QMS), which scopes is the "Administration of the Available Balance of the Deposit Guarantee Fund", was obtained.

At an international level, SEDESA continued being recognized as a distinguished organization and actively participating in the activities conducted by the International Association of Deposit Insurance (IADI). In 2016, the Company led the working team that performed the restructuring process of IADI and the reorganization of its procedures that were approved by the Executive Council of the Association and implemented by its Secretariat.

Additionally, SEDESA hosted the "First Americas' Deposit Insurance Forum" that gathered representatives of deposit insurers of North America, Latin America and the

Caribbean. The original format of this event, the success of the call and the results obtained as a result of the discussion of the proposed issues, caused praises from IADI and the adoption of such format for future events.

We continued being engaged in the adoption of the best practices for the activity of a deposit insurer, as a core idea to foresee events and a global and integrating vision of our activities. We will focus our actions on a proactive and innovative direction for the Company's purpose.

Within the scope of the objectives for the following years, it is binding to continue investing in a more efficient management. During 2017 there will be the challenge to replace the current business management systems for solutions that unify the information and make the processes automatic, so that all the situations that may derive from the activities of a deposit insurer are conducted.

Finally, on behalf of the Board of Directors, I would like to thank the Central Bank of Argentina, Caja de Valores S.A. and the Financial Institutions of our banking system for all the support provided; and I am especially grateful to all of our collaborators, engaged in every activity of this Company, for their commitments and professionalism that helped us in achieving the goals established for the ended fiscal year.

Rodolfo Santangelo
Chairman
SEDESA

1. International Context. General Provisions.

The year 2016 was mainly characterized by the surprises in the electoral results of the United States and the corrections of the initial economic expectations.

The corrections in the economic projections made around the end of 2015 did not adjust the estimations over the majority of variables towards the values finally observed as of the closing of the year.

In this context, the global economic growth was lower than the one expected. The International Monetary Fund (IMF) has planned a 3.4%- increase of the global product for 2016; while for the year-end, it was expected that such increase would be of about 3.1% regarding the results of the previous year. Such decrease mainly occurred since the development of the advanced economies was lower than the one initially expected.

In particular, the slowdown in the growth of the turnover of the international trade of goods and services was important. The IMF estimated a 3.4%-increase and, after the annual closing, it believed it would be lower than 2%. The decrease occurred in developed economies as well as in emerging and developing economies.

The key factors and their pertinent impacts on the different countries, depending on the idiosyncrasy of each economy in particular, have been the evolution of the commodities and the electoral result in the worldwide major economy.

1.1. Advanced Economies.

In the United States a gradual tightening of the monetary policies was expected during 2016 upon the positive evolution of the main economic variables through the continuity of the economy's growth and its consequent approach to the policy targets set forth by the Federal Reserve System (FRS). Such targets were conditionals of the evolution of the interest reference rate.

The evolution of the North-American labor market as well as the recorded level of inflation showed during the last year an evolution, though being continuous and positive, lower than the one expected. In such regard, the evolution of the commodities' prices, mainly the ones of the petroleum, and the increase of the labor search by the Americans, initially led to the fact that the expected strengthening of the relaxed monetary conditions was even more gradual.

Punctually, and contrary to what was expected at the beginning of the year, during 2016 there was only an increase, of 25 basic points, in the reference rate established by the FED reaching 0.75% of the year.

The U.S. presidential elections and specially Donald Trump's victory, an unexpected result for the financial markets, were the factors that modified the scenario and may be the leading event of last year.

Trump's triumph and the expectations on the program and policies to be conducted by the elected administration, with some uncertainty, strengthened the view of an accelerated and positive development of the North-American economy and consequently adjusted the financial conditions and expectations adding some volatility to the market.

The international context, mainly through the trade current international dependence and the considerations on the strength of the U.S. governmental entities limited the correction over the values of the economic variables and the estimations of its evolution.

Another relevant event of the year, also an unexpected situation for the markets, was the electoral decision of the United Kingdom to leave the European Union and the Eurozone. The Brexit caused the effective resignation of the Prime Minister, who was in favor of a greater integration, and its consequences have not still been clear. The movements and reforms in several European financial institutions stood out among such consequences

This last electoral act, together with the next triumph of the Republican Party in the abovementioned presidential elections in the United States, intensified the fear of certain analysts regarding the voters' moving to more isolationist political positions in different economies that do not end reaching a solid growth.

Within the European Union, in 2016 the monetary conditions remained, and would continue, being relaxed pursuant to the statements made by the authorities of the European Central Bank (ECB), since the growth of the economic zone was indicated at a rhythm lower than the one pretended, despite the differences among the member countries and a disappointing inflationary dynamic.

Finally, in other advanced economies as Canada and Japan, among others, despite obtaining in general growth in their economies, such increases were lower than the ones initially expected.

1.2. Emerging and Developing Economies

As in previous years, one of the main concerns of 2016 was the evolution of the Chinese economy. Specifically, such worry was based on the fear of a higher slowdown of the growth due to the transformation that its authorities were trying to make in view of the strength of the internal market's role; and, on the other hand, due to concerns based on a potential credit bubble in the private sector.

After the year-end, the growth in such economy was estimated to be higher than the one initially expected and the abovementioned fears were postponed though remained being kept on the analysts' radar.

In general, the other Asian economies behaved otherwise. India as well as the minor economies, helped with the growth of the global product lower than what had been projected at the commencement of the year.

As regards the Commonwealth of Independent States (CIS)¹, supranational organization composed by most of the former Soviet Republics, except for the Baltic States members of the European Union, the consensus regarding its contribution to the growth of the global product was estimated to be negative or neutral as from the contraction suffered by the Russian economy.

Latin-America, in turn, also contributed to the global slowdown as from the contraction that in turn occurred in the region.

This decrease was in a way expected, as from the contractions in the Brazilian and Venezuelan economies, among others. The regional retraction was higher than the initial previsions due to a lower growth of other economies of the zone. Within this group the Mexican economy stood out where the North-American electoral result and the decrease of the petroleum's price had directly affected its evolution.

1.3. Argentina in the World.

Even though the contraction of the domestic economy was, to a great extent, caused by the corrections of the relative prices and the modification of different regulatory frameworks as from the change of the local governmental authorities, the evolution of its principal partners was a relevant factor.

¹ Commonwealth of Independent States (CSI): Azerbaijan, Russia, Armenia, Belorussia, Kazakhstan, Kirghizstan, Tajikistan, Moldavia and Ukraine. <http://iacis.ru/eng/parliaments/>

Therefore, it is worth mentioning the continuance of the contraction in the Brazilian economy, the largest commercial partner, as well as the uncertainty regarding its evolution, with signs of political instability.

As regards the other commercial partners, as stated hereinabove, there remained the scene of low European growth and concerns about China, and there appeared a new scenario of fear towards a higher commercial closing of the U.S. economy.

The abovementioned factors showed challenges for the Argentine economy in relation to the Commercial Account in a context where the international commercial exchanges decreased.

On the contrary, the external influence on the side of the Financial Account of Balance of Payments. A world with low growth allowed maintaining a reasonable financing where the relaxed monetary conditions prevailed in the main economies of the world.

The regularization of the Republic's external debts, a reasonable and increasing opening to the world and comfortable debt ratios in the market, allowed the possibility of continuing with the leverage by the Treasury, provided the sustainability risks did not increase as from the tax situation.

2. The Argentine economy.

2.1. New conduction and regularization of the economy.

The defining characteristic of the year was the presence of a new management team that led the Argentine economy, after the elections as of the end of 2015. This event stood out since dealing with a state, with more or less experience in the public structures, implied a necessary learning; and this need was shown during 2016 through the conducted measures and changes.

One of the main facts was the continuous and gradual regularization of the foreign exchange market, with the purpose of ending with the known “foreign-exchange clamp” that was set aside upon the revocation and modification of several regulations to access the market and operate in it. At the end of 2016, the national exchange market regularized its functioning within the usual standards.

A necessary requirement and condition for the regularization of such market were the operations for the normalization of the national public debt with the removal of the international markets’ default, performed in last April.

This regularization further allowed the Central Bank of Argentina (BCRA), as the monetary authority, to coordinate and conduct a disinflation and formation of expectations through the search of foreseeability as to the economic agents; therefore, different goals had been set during the year when the Inflation Targeting system, to be implemented as from 2017, was announced. To such effect, objective goals were timely defined as well as the references to be considered to supervise the compliance thereof.

Therefore, it was essential to succeed in the search of a slowdown of the inflationary dynamic, the changes in the National Institute of Statistics and Census (INDEC). In such regard, it should be pointed out the drafting of a new Consumer Price Index including the Gran Buenos Aires (CPI – GBA) as from June 2016 pursuant to the international standards.

As a consequence of this and other significant changes in such Institute, during last November, the Executive Board of Directors of the International Monetary Fund removed the restriction statement imposed on Argentina as from February 1, 2013 for the non-compliance of the rendering of accurate information on the economy’s evolution pursuant to the obligation set forth in the Articles of Agreement of the IMF.

This last sanction, new of a member country, was originated as from the discoveries performed in July 2011 on the inaccuracy of the data provided. It should be remembered

that at a local level there were questions on the information rendered by INDEC as from 2007.

Another defining event of the year was the correction of relative prices. The political management from different sectors, and related aspects mainly regarding energy rates caused, during the year, adjustments and modifications to the changes initially proposed by the new authorities.

Finally, it should be pointed out at the year-end the decision to change the person in charge of the economic area, upon implementing a new amendment to the Ministries Law, dividing the Ministry of Treasury and Finance into two different ministries. The Ministry of Finance continued with the team of the former management, while the current person in charge of the Ministry of Treasury was incorporated from the private sector.

2.2. The economic situation and its perspectives.

During the last year, the economy started with a high tax deficit due to the level of public debt in the market, with the expectations focused towards the arrangement with the holdouts and the abovementioned regularization of the financial framework.

The return to the international markets, the reduction in the tax charge to certain tradable sectors, mainly through the decrease of withholdings to the exports, as well as the removal of operating regulations and the announcement of the Tax Disclosure were the factors that led Argentina to be placed under the investors' view and projected an advantageous future.

Besides, the global situation and the main commercial partners in particular, new governmental expenses as the Historical Reparation Program with Retirees and Pensioners and other social organizations, as well as the reduction of tax accounts due to the decrease in the income collected by the tax authority, mainly during the first semester, caused fear over the sustainability of the public deficit and increased the precautions on the evolution of the economic development.

Punctually in 2016, despite the income of dollars and lesser corrections than the ones planned in the regulated sources, ended with an interannual inflation of almost 38% pursuant to private sources², a strong slowdown was emphasized towards the end of the year, but even then, there was a decrease in the real salary of about 5 and 6% and an

² There is no official information on annual inflation upon redrafting the consumer price index by the new management of the INDEC.

estimated decrease in the private consumption (65% of the GDP approximately) of 2.5% in relation to the previous year.

Regarding investments, a significant decrease was registered, especially as a consequence of the review and renegotiation of agreements by the new management in public works and, in turn, a reduction of transfers to sectors focused in the internal market. Such reduction was not compensated by the sector that had received important signs of prices (farming, regional economies, mining, renewable energies and some public services).

In relation to the international trade, it is worth mentioning the return to a positive balance in the Trade Balance in 2016. Even though in certain way it was expected, since a fall in the imports seems to be usual in the successive years, on consumptions and investments, the growth of the exports was auspicious for the first time as from 2011, despite being far from the potential level. The largest increase was registered from the primary producing sectors that had been benefited by the regulatory changes during the last months of the year.

As regards the financial sector's dynamism, the financial intermediation in Pesos ended the year with a significant decrease on real terms, in a context where the evolution of the level of activity and the dollar-rate balance, led to a strong slowdown in the growth of the loans to the private sector, particularly in the commercial sector. Thus, the loans to the private sector in local currency only increased 16.1% on a year-to-year basis on nominal terms. In turn, deposits in pesos of the private sector increased 23.8% on a year-to-year basis³. It is worth mentioning that, in this sector there seems to be a break of tendency towards the end of the year where there was an actual growth in the variables during the last months.

In contrast, the intermediation in Dollars showed a strong increase, with a growth of 130% and 215% in deposits and loans, respectively. In the first case, the increase was explained by the growth in the placements during the first part of the year since there was a slowdown in the next months together with the decrease in the interest rate, and due to the income related to the tax disclosure. Regarding the loans, the increase was explained due to their attractive feature as to the new dollar-rate balance, and where the main borrowers (sectors with income related to the exchange rate's dynamic) were these sectors that received signs of prices during 2016.

In turn, the annual tax collection showed an increase of 34.6% on a year-to-year basis. It is worth mentioning that such collection was not regular but with a strong impulse as from the tax disclosure plan especially in the last month of the year. During 2016, the collection

³ Pursuant to the Central Bank of Argentina.

from the payment of fines related to such disclosure added ARS 106,769 million (ARS 90,395 million in December) and explained almost the 7% of the interannual growth in tax revenues. In this context, the dynamic of the primary expense was consistent with a primary deficit of 4.6% of the GDP, a bit under the goal of 4.8% of the GDP agreed at the beginning of last year.

On the other hand, the unemployment rate was 8.5% in the last trimester of the year (last information available when drafting this report).

In view of the future, the economic conditions allow the government to be financed during an electoral year for which there had been announcements of substantive investment in public works.

The information pointed out before, together with the known “initial outbreaks” that returned in November after a brief incursion in August (vehicles, cement and industry in general together with some preliminary indicators of consumption, in December) allowed projecting the return to the growth.

Paradoxically, such recovery would be associated, upon sustaining a gradual correction of the tax deficit, with increasing risks of sustainability, and consequently, with a higher exposition of global volatility and exchange flexibility.

i Source of national and international macroeconomic and financial data: Estudio Bein & Asociados; Bloomberg.

3. Seguro de Depósitos S.A. (SEDESA)

Seguro de Depósitos S.A. (SEDESA) is a corporation (*Sociedad Anónima*) organized in 1995 with the purpose of acting as trustee of the Deposit Guarantee Fund (DGF).

The Executive Order 540/95 created the Deposit Guarantee Fund to guarantee bank deposits with the scope of action set forth in such order and its subsequent amendments.

According to the regulations in force, SEDESA's obligations as trustee of the DGF are:

1. To pay the guaranteed amount to depositors, where applicable.
2. To make capital contributions and non-reimbursable contributions or grant loans to financial institutions that:
 - are under a regularization and reorganization plan to support the compliance thereof;
 - have acquired assets and undertaken to pay the deposits of another institution that is subject to the system set forth in section 35 bis of the Argentine Financial Institutions Law (*Ley de Entidades Financieras*) where applicable to compensate insufficiency of such assets regarding the transferred deposits;
 - have taken over or acquired financial institutions under a regularization and reorganization plan.
3. To execute a put option agreement with financial institutions that acquire assets and undertake to pay the deposits of an institution subject to the provisions set forth in section 35 bis of the Argentine Financial Institutions Law for the benefit of the acquiring institution over all or part of the transferred assets. This arrangement may consist in the creation of a trust.
4. To acquire deposits from suspended banks up to the amount of the guarantee, subrogating to the rights of the depositors (including the reimbursement to the holders of the amounts deposited in wages and salaries crediting accounts).
5. To undertake obligations chargeable to the DGF within the limitations timely established.
6. To carry out, maintain or finance REPO programs with foreign banks for the stability of the Argentine financial system, with the prior consent of the Central Bank of Argentina and chargeable to the DGF.

4. Actions undertaken

4.1. Deposit Guarantee Fund (DGF)

Pursuant to section 1, Executive Order 540/95, the purpose of the Deposit Guarantee Fund (DGF) is to cover bank deposits within the scope set forth thereof. Notwithstanding the foregoing, the DGF may provide the financial assistance listed in section 10 bis of Executive Order 540/95 and its amendments.

To accomplish its purpose, the DGF obtained its recourses from the monthly contributions made in cash by the financial institutions under the terms, limits and conditions set forth in Executive Order 540/95 and its amendments and in accordance with the supplementary regulations issued by the BCRA.

In April 2016, the BCRA stated through Communication “A” 5943 that the institutions included in the Argentine Financial Institutions Law shall make common contributions to the Deposit Guarantee Fund (DGF) of 0.015% of the monthly average of the daily balances of the items listed in point 5.1, registered in the second preceding month. Moreover, such Communication established that as from May 1, 2016, the scope of the limit of the deposits’ guarantee shall amount to ARS 450,000.

Regarding the administration of Deposit Guarantee Fund’s investments made in 2016, it was positively affected by the desregularization of the foreign exchange market and the normalization of the judicial situation of the Argentine debt that eliminated the risk of attachment on the Argentine Entities’ investments.

Pursuant to the analysis performed on the level of historical assistance, the volume of the Deposit Guarantee Fund and the amount of the deposits of the Argentine Financial System, it was found better to increase the proportion of Dollars in the invested portfolio and therefore increase the proportion of the high-credit quality instruments, specifically investing in bonds of the US Treasury.

The available balance as of December 31, 2016 amounted to ARS 43,475,052,689.

In line with the abovementioned, for such period, the proportion of the securities invested in US Dollars was of 54.67% of the portfolio of the DGF, while towards the end of 2015 it had been of 47,68%. It is worth mentioning that the 2015-amount did not include the “dollar link” national bonds. Specifically considering the

investments made in the denominated *US Treasury*, consequently they increase from 42.8% to 46.7% for the same period.

On the other hand, as of December 31, 2016 the 37.45% of all of the DGF portfolio was invested in BILLS of the CENTRAL BANK (LEBAC), totalizing in 45.22% the investments made in Pesos. It is worth mentioning that, in comparison with 2015, such proportion of LEBAC had been of 14.37% of the entire portfolio.

Therefore, the result of the investments made during the Year 2016 was of ARS 9,397,063,024, of which 52.80% (ARS 4,961,649,277) represented investments in Pesos and 47.20% (ARS 4,435,413,747) showed investments made in US Dollars.

4.2. International Representation

During 2016, regarding international relations, SEDESA as full member of IADI (International Association of Deposit Insurers) had maintained its active participation in the Association and several forums and activities organized by it.

On such forums, Dr. Alejandro López, SEDESA's Chief Executive Officer, was a member of the Executive Council (EXCO) of IADI and continued holding the office of Chairman of the Latin-American Regional Committee (LARC).

In April, the "1st Americas' Deposit Insurance Forum" was held at the Alvear Palace Hotel in the city of Buenos Aires, Argentina. The event, hosted and organized by SEDESA, had the participation of 43 representatives of the members of the regional committees of North America, Latin America and the Caribbean (RCNA, CRAL y CRC) of IADI. Moreover, representatives of the International Monetary Fund, authorities of the Central Bank and the Superintendency of Financial and Exchange Institutions of Argentina participated therein.

The most important topics, as the ones hereinafter described, on deposit insurance systems were discussed:

- Legal liability issues of deposit insurances in resolution processes.
- Formal and comprehensive frameworks that provide coordination for information sharing, as well as the duties and responsibilities of deposit insurance agencies within the financial safety network.
- Valuation and evaluation of resolution options to achieve loss minimization.
- Recent studies in the field of cooperatives and their specific role in the financial system.

The format of the event was recognized and praised by the participants and IADI so it would be further used in the “2nd Americas’ Deposit Insurance Forum” to be held in April 2017 in the city of San Pablo, Brazil.

It is worth mentioning that, during this event, as part of the Working Plan submitted by the General Management in 2015, a Memorandum of Understanding (MOU) between SEDESA and Fundo Garantidor de Créditos (FGC) from Brazil was executed to promote a wider international cooperation and the exchange of information, experiences obtained and the implementation of better practices on deposit insurance issues. Such execution was approved by the Executive Council (EXCO) of the Association and later ratified in the 15th General Meeting of Members – AGM held in October in the city of Seoul, Korea.

Furthermore, in May, the Chief Executive Officer of SEDESA, in his capacity as coordinator of the Working Group on the Government Structure and Proceedings of IADI, appointed by Thomas Hoenig, President of IADI, presented the results of the analysis conducted by the team led by him. In view of continuing with the Strategic Priorities of the Association, a report stating a proposal of a new organization structure was filed.

Next, through its General Secretariat, IADI would design a plan of transition to the new structure and implement the pertinent changes during the next year.

4.3. Certification of the quality management System (QMS)

In line with the deepening of the design, the implementation and the training of SEDESA’s resources in the management of different activities performed by the Company; documents and actions to increase the integral efficiency and effectiveness of the Company’s tasks were developed during 2016.

It is important to mention that the experience obtained by SEDESA’s personnel in the implementation and conduction of the Quality Management System and in the participation therein was very useful for SEDESA’s general operating procedures and was beyond, as to the scope, the certified processes that complied with the IRAM- ISO 9001:2008 Standard.

In November, IRAM conducted a follow-up audit of the certification of the QUALITY MANAGEMENT SYSTEM (QMS) under the ISO 9001:2008 standards which scope is the “Realization and sale of real state to integrate the available balance of the

Deposit Guarantee Fund” and the recertification audit of the QUALITY MANAGEMENT SYSTEM (QMS) under the ISO 9001:2015 standards which scope is the “Administration of the Available Balance of the Deposit Guarantee Fund”.

The audit finished successfully and the auditors recommended the General Committee of Certifications of IRAM to grant the recertification of the Quality Management System which scope is the “Administration of the Available Balance of the Deposit Guarantee Fund” and the maintenance of the certification of the “Realization and sale of real state to integrate the available balance of the Deposit Guarantee Fund”.

Pursuant to the events described, there were updates of documents on policies, procedures and regulations of the Regulatory Framework of the Company. The documentation’s renewal and modernization included: the Investment Policy of the DGF, the Organizational Structure Policy, Client’s Knowledge and Identification Policy, Real Estate Sale Policy, Rules on Missions and Functions – Prevention of Asset Laundering and Terrorism Financing, the Procedure of Prevention of Asset Laundering and Terrorism Financing, Forms of Sending/Reception of magnetic means to/from external keeper, the Evaluation of Indispensable Suppliers, the Information Requirement of Financial Information Unit – Public Bodies, the Information Requirement of Financial Information Unit, the Replacement Chart Regulation, and Regulation of Operative Positions’ Profile.

Moreover, there were efforts leading to a modernization of the processes of documentary management by the in-house development of a management software and therefore, leading to a reinforcement of the abilities of dealing with the documentation and its pertinent follow-up.

4.4. Asset Management

Regarding the credit management and pursuant to the seniority of the portfolio at issue, during the current year, there was a priority in the recovery actions over credits with higher possibilities of being collected. In relation to the Real Estate Management, there continued being actions for the encouragement and materialization of the recovery and transfer of certain residual assets for the benefit of SEDESA.

Moreover, there were tender processes to transfer the real property recovered by the DGF, according to the current regulations and policy included in the QUALITY

MANAGEMENT SYSTEM (QMS) under the ISO 9001:2008 standard which scope is the “Realization and sale of real state to integrate the available balance of the Deposit Guarantee Fund”.

4.5. Information Management

In line with the continual improvement process, in November, the Board of Directors of SEDESA, after a selection process, approved the acquisition of *SAP Business One*, a new business management system that would replace the current accounting system TANGO GESTION, considering not only the current needs of SEDESA but also the potentiality of these tools that may be essential for the efficient management of future situations derived from a deposit insurer’s activities.

Likewise, the *SAP Business One* application is a solution specifically designed for small and medium size companies that encourage an increase of the control and make the business processes automatic, allowing the access on real time and in a unified manner to the information of the company’s essential management. The process of implementation thereof would begin on the first semester of 2017 and shall be extended for six months approximately until the commencement of the production stage.

4.6. Acquisition of the Real Property for the Registered Office of SEDESA

The convenience of acquiring the real property for the Registered Office of SEDESA arose as a result of an initial offer made by Banco Supervielle S.A. to SEDESA on the sale of such unit.

This situation showed SEDESA the possibility that, upon the sale of the unit, a purchaser may prevent the Company from being established in such registered office causing additional moving and relocation expenses, the subsequent expenses of work and the adaptation of the space as well as the negotiation and execution of new lease agreements, among others.

After analyzing all the circumstances, the SEDESA’s Board of Directors considered, on one hand, the opportunity of investing the Company’s resources and generating a significant saving for the DGF as regards the possible abovementioned expenses.

On the other hand, it was considered that such transaction shall cause a rent in hard currency allowing the Company to protect and increase its capital.

On November 17, 2016, the Company purchased the property located in San Martin 344, 12th floor -to set its Registered Office- and six parking spaces.

Furthermore, it was established that the lease price that the DGF (Lessee) shall pay to SEDESA (Lessor) for the leased Real Property shall be fixed on an annual basis by the average arising from three (3) appraisals requested by private companies of well-known experience and trajectory in the real-estate area. Thus, it was stated the market value that would not entail additional expenses for the DGF, of those previously made for this transaction.

Such amount shall be valid for the corresponding year and at the end of each year, new appraisals for identical purposes would be requested.

5. Financial Statements

5.1. Financial Statement of SEDESA

According to section 1, subsection 3 of Resolution N° 6/2006 of the Argentine Companies' Registration and Control Office (IGJ) and its amendments, it is hereinafter stated a summary of the financial position, income statements and the sources and application of SEDESA's funds:

	<u>12/31/2016</u>	<u>12/31/2015</u>
CURRENT ASSET	16,338,268	49,063,509
NON-CURRENT ASSET	41,517,936	403,018
TOTAL ASSETS	57,856,204	49,466,527
CURRENT LIABILITIES	11,010,770	7,719,453
TOTAL LIABILITIES	11,010,770	7,719,453
NET WORTH	46,845,434	41,747,074
TOTAL LIABILITIES PLUS NET WORTH	57,856,204	49,466,527
ORDINARY OPERATING INCOME	-2,237,520	-2,052,077
FINANCING AND HOLDING INCOME	9,978,714	23,800,669
OTHER INCOME AND EXPENSES	0	0
ORDINARY NET INCOME	8,124,915	21,748,592
EXTRAORDINARY INCOME	383,721	0
SUBTOTAL	8,124,915	21,748,592
INCOME TAX	-3,026,555	-7,940,341
NET INCOME	5,098,360	13,808,251
	<u>12/31/2016</u>	<u>12/31/2015</u>
Funds arising from (applicable to) operating activities	-4,112,026	-5,452,699
Funds arising from (applicable to) investment activities	-41,342,441	-228,637
Funds arising from (applicable to) financing activities	9,986,059	23,768,107
Total funds generated (applied) during the fiscal year	-35,468,408	18,086,771

Moreover, pursuant to section 1, subsection 4 of the abovementioned resolution, the following indexes were evidenced:

	Year 2016	Year 2015
CURRENT LIQUIDITY (CURRENT ASSETS/CURRENT LIABILITIES)	1.5	6.4
SOLVENCY (NET WORTH/TOTAL LIABILITIES)	4.3	5.4
FIXED CAPITAL STOCK (TOTAL ASSETS/NON-CURRENT ASSETS)	71.76%	0.81%
PROFITABILITY (INCOME FOR THE FISCAL YEAR/NET WORTH)	10.88%	33.08%

Regarding the analysis of the main items of the Financial Statements of SEDESA, there was a reclassification from the current asset to the non-current asset, due to the acquisition of the premises located in San Martín 344, 12th floor, as the Company's Registered Office, together with six parking spaces in the same building, paid by a transfer of Nominal Value of the securities known as "Bond of Argentina in United States Dollars 7% 2017".

Additionally, there was an increase in the item "Other receivables" of current assets regarding 2015, due to the favorable balance of the income tax caused by the prepayment of advancements higher than the determined liabilities. In relation to the current liabilities, the increase was caused by the growth in 2015 in Accounts payable due to the debt that SEDESA maintained with the DGF for the transfer of funds to bear the necessary expenses for the Company's operation.

The income of SEDESA in the year ended as of December 31, 2016, showed a decrease in relation to 2015, due to the financial results and holdings, as a consequence of the depreciation of the Argentine Peso against the US Dollar that was relatively lower than the one of the prior year during which there was a substantial effect due to the unification and normalization of the foreign exchange market.

Regarding the operative results, the deterioration against 2015 belonged to the income arising from the rent of the 12th floor and the parking spaces to the DGF, as well as the income obtained from the "First Americas' Deposit Insurance Forum" held on April 19-20, 2016 at the Alvear Palace Hotel in the City of Buenos Aires.

Therefore, SEDESA's Net Worth as of December 31, 2016 amounted to ARS 46,845,434 and included the following items:

Capital	ARS 1,000,000
Capital Adjustment	ARS 1,197,266
Legal Reserve	ARS 439,454
Optional Reserve	ARS 39,110,354
Income for the fiscal year	ARS 5,098,360
Total	ARS 46,845,434

5.2. Financial Statements of the DGF

The following information on the Financial Statements is drafted in order to provide a framework for the understanding thereof in view of the local and foreign economic and financial situation.

The local and international context in 2016 remained going through paths of high uncertainty since the global economy and mainly the Argentine economy showed unexpected situations in the markets, increasing the volatility in certain moments with their consequent effects in the real economic activity.

Furthermore, the administration of the Deposit Guarantee Fund (DGF) remained being oriented to an improvement of its balance's structure, reducing the illiquid assets (mainly the credit portfolio) and performing financial operations that reconcile positive yields with low risk profile, to comply with the original purpose of the DGF.

5.2.1. Assets

In 2016 the total assets of the DGF increased ARS 20,785 million as to the end of the previous year (an increase of 48%) evidenced by growths of ARS20.768 millions in the current assets (a growth of 48%) and an increase of ARS18 million in non-current assets (an increase of 7% in the year). It is worth mentioning that the growth mainly belonged to the process of foreign exchange unification that allowed the accounting registration of the value of the assets denominated in foreign currency at the true market value and the quotation of the foreign currency being in correspondence with the quotation of the free market, now a single foreign exchange market.

The main increases registered in the current assets were under the item Investments, an increase of ARS 14,103 million (a growth of 48% on a year-to-year basis) and in the item Cash and Banks there was an increase of ARS 6,656 million (a growth of 49% on a year-to-year basis).

In Cash and Bank, most of the increase as of the prior year-end, was concentrated in the item foreign currency affected by the REPO transactions (ARS 7,675 million more), related to the operating procedures that the DGF usually conducts with the BCRA. It is important to mention that pursuant to the sections set forth in the letter of agreement of those transactions, the results generated therein and recorded in the Financial Statements of the Fund, belonged to the assets submitted by the DGF as underlying assets in the transactions. Moreover, the assets in kind involved therein shall be returned to their originals holders, in this case the DGF, upon expiration.

As of the issuance date of the Financial Statements mentioned in this report, the REPO transactions amounted to USD 1,278,823,122.

In the item Investments it is relevant to mention the growth in the holding of national public securities in foreign currency, ARS 1,582 million in the year, as well as securities in foreign currency allotted to REPO transactions, that entailed an increase of ARS 7,721 million.

Furthermore, from the analysis of cash-generation of the DGF's operating activities, it was observed a decrease of ARS 473 million as to 2015, where the main variation was in the contributions of the institutions (ARS 2,648 millions) due to the regulatory amendments set forth by the BCRA as from May 1st, 2016 that stated a reduction of the monthly contributions of the financial institutions from 0.06% to 0.015% of the average of the daily balances of deposits made on each institution. Additionally, a decrease was registered in the financial income (ARS 1,449 million).

5.2.2. Liabilities

In 2016 there was an increase in the Liabilities of the DGF (ARS 7,672 million), basically evidenced by the REPO transactions for the Fund through securities in foreign currency.

5.2.3. Balance Sheet

As of the December 31, 2016, the Net Worth of the DGF amounted to ARS 43,731,890,804, representing an increase of ARS 13,113,707,271. This increase in the Net Worth was composed of ARS 9,326,085,499 (income generated by the DGF during the fiscal year) and ARS 3,787,621,772 (contributions made by the financial institutions). It is worth mentioning

that, for the fifth consecutive year, the increase in the Net Worth was mainly caused by the income generated by the Fund, over the contributions of the institutions.

In this sense, the Net Worth managed by the DGF increased 42.83%.

5.2.4. Income

The national and international financial context allowed that the income of the fiscal year amounted to ARS 9,326 million, with an increase of ARS 867 million in comparison with the income of the previous year; showing an income 10.25% higher than the one of the previous year. This result was reached by the financial investments that generated profits of ARS 9,397 million, entailing an increase of ARS 886 million as to the former period (an increase of 10.41% on a year-to-year basis).

The continuity in the policy to improve the management of the DGF was showed in the income statement of 2016. During the year, this item implied a positive impact on the income due to an increase of the income from collections and recovery of credits as well as income from collection of financial leased assets.

On the other hand, administrative expenses amounted to ARS 95.7 million. The annual increase was mainly based in Remunerations, Social Security Contributions and Expenses incurred in Employees, Fees of Directors as well as Statutory Auditors and Professional Fees.



SEGURO DE DEPOSITOS SOCIEDAD ANONIMA

Financial statements for the fiscal years ended as of December 31, 2016
and 2015 together with the Independent Auditors' Report.

SEDESA
SEGURO DE DEPÓSITOS S.A.

SEGURO DE DEPOSITOS SOCIEDAD ANONIMA

BALANCE SHEET

as of December 31, 2016 and 2015

(in Argentine Pesos)

ASSETS	12/31/2016	12/31/2015
CURRENT ASSETS		
Cash and banks	9,799,036	9,692,384
Investments	3,666,890	39,241,950
Other receivables	2,872,342	129,175
Total current assets	16,338,268	49,063,509
NON-CURRENT ASSETS		
Other receivables	147,318	143,730
Fixed assets and real property	41,370,618	259,288
Total non-current assets	41,517,936	403,018
Total assets	57,856,204	49,466,527
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	7,862,585	580,534
Taxes payable	1,318,358	5,719,739
Corporate debts	1,829,827	1,419,180
Total current liabilities	11,010,770	7,719,453
Total liabilities	11,010,770	7,719,453
NET WORTH (according to related statements)	46,845,434	41,747,074
Total Liabilities and Net Worth	57,856,204	49,466,527

SEGURO DE DEPOSITOS SOCIEDAD ANONIMA

INCOME STATEMENT

for the fiscal years ended as of December 31, 2016 and 2015
(in Argentine Pesos)

	<u>12/31/2016</u>	<u>12/31/2015</u>
Income from leases	421,942	-
Income Annual Conference IADI 2016	383,721	-
Administrative expenses	(2,776,985)	(2,156,224)
Plus:		
Recovery of expenses	117,523	104,147
Financial and holding income from assets	<u>9,978,714</u>	<u>23,800,669</u>
Net profit	8,124,915	21,748,592
Charge from income tax	(3,026,555)	(7,940,341)
Net Income for each Fiscal Year	<u>5,098,360</u>	<u>13,808,251</u>

INDEPENDENT AUDITORS' REPORT

To the Directors of
SEGURO DE DEPÓSITOS S.A.
Legal domicile: San Martín 344, 12th floor
Autonomous City of Buenos Aires

I. Report on the financial statements

Introduction

1. We have audited the attached financial statements of SEGURO DE DEPÓSITOS S.A. ("the Company") that includes: (a) the balance sheet as of December 31, 2016, (b) the income statement, the statement of changes in net worth and the statement of cash flow for the fiscal year then ended, and (c) a summary of the significant accounting policies and other explanatory information.

Duties of the Company's Board of Directors in relation to the financial statements

2. The Board of Directors of Seguro de Depósitos S.A. is responsible for the reasonable drafting and filing of the attached financial statements pursuant to the information framework established by the Companies' Control and Registration Office (IGJ) that, as stated in note 1 of the attached financial statements, requires the application of the Argentine professional accounting regulations in force in the Autonomous City of Buenos Aires, provided it is not expressly stated otherwise in the law, regulatory provisions or resolutions of such controlling body. Moreover, the Board of Directors is liable for the internal control that it deems necessary for the drafting of financial statements free of significant misrepresentations based on mistakes or irregularities.

Duties of the auditor

3. We are liable for the rendering of a report on the attached financial statements based on our audit conducted. We have performed our work pursuant to the auditing regulations set forth in the Technical Resolution No. 37 of the Argentine Association of Professional Councils of Economic Sciences. Such regulations establish that the auditors must comply with ethical requirements and that we have to plan and perform our obligations with the purpose of obtaining a reasonable degree of certainty about the lack of significant misrepresentations in the financial statements.

An audit implies the application of procedures to obtain items of evidence that support the information and figures described in the financial statements. The selected procedures depend on the professional opinion of the auditor, who evaluates the possibility of relevant misrepresentations in the financial statements caused by mistakes or irregularities. To conduct this risk examination, the auditor considers the internal control of the Company regarding the relevant aspects for the reasonable drafting and submittal of the financial statements, in order to select the auditing procedures that are suitable according to the circumstances but not with the purpose of rendering an opinion on the effectiveness of the current internal control system of the Company. An audit further includes an evaluation of the suitability of the used accounting policies and of the reasonability of the accounting estimations made by the Company's Board of Directors, as well as an evaluation of the submittal of the financial statements as a whole.

We consider that the conducted examination is a sufficient and reasonable ground to support this auditor's report.

Opinion

4. In our opinion, the financial statements attached hereto reasonably reflect, in all significant aspects, the financial position of SEGURO DE DEPÓSITOS S.A. as of December 31, 2016, as well as the income statements and cash flows for the fiscal year then ended in accordance with the accounting information framework stated above in paragraph 2.

II. Report on other legal and regulatory requirements

In compliance with the current provisions, we hereby state that:

- a) As of December 31, 2016, the accrued debt of social security contributions for the benefit of the Argentine Integrated Retirement System, as evidenced in the Company's accounting records, amounted to ARS 1.452.244 and was not due and payable as of such date.

- b) We have applied the procedures to prevent asset laundering and terrorism financing as set forth in the current professional regulations.

Autonomous City of Buenos Aires,
February 7, 2017

PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.
C.P.C.E.C.A.B.A. [Professional Board of Economic Sciences of the
City of Buenos Aires] Volume 1 – Folio 13

NORBERTO M. NACUZZI
Partner
Public Accountant U.B.A.
C.P.C.E.C.A.B.A. T° 196 – F° 142



DEPOSIT GUARANTEE FUND

Trust arising from the Trust Agreement entered into on March 7, 1997, between the Central Bank of Argentina (BCRA), as trustor, and Seguro de Depósitos S.A., as trustee.

Trust financial statements for the fiscal years ended as of December 31, 2016 and 2015 together with the Independent Auditors' Report.

SEDESA
SEGURO DE DEPÓSITOS S.A.

DEPOSIT GUARANTEE FUND

TRUST BALANCE SHEET as of 31 December, 2016 and 2015 (in Argentine pesos)

	<u>12/31/2016</u>	<u>12/31/2015</u>
ASSETS		
CURRENT ASSETS		
Cash and Banks	20,239,145,054	13,583,135,526
Investments	43,409,547,872	29,306,198,855
Receivables	3,958,573	2,739,005
Assets under Financial Leasing	-	24,194
Other Receivables	7,953,152	670,375
Other Assets	1,312,357	1,141,561
Total Current Assets	<u>63,661,917,008</u>	<u>42,893,909,516</u>
NON-CURRENT ASSETS		
Investments	160,631,313	152,177,716
Receivables	113,232,654	104,134,611
Other Receivables	206,060	206,060
Other Assets	2,150,649	1,952,476
Total Non-Current Assets	<u>276,220,676</u>	<u>258,470,863</u>
Total Assets	<u><u>63,938,137,684</u></u>	<u><u>43,152,380,379</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	11,666,771	10,391,684
Liabilities from REPOs	20,192,857,475	12,517,602,298
Other Liabilities	1,722,634	6,202,864
Total Current Liabilities	<u>20,206,246,880</u>	<u>12,534,196,846</u>
Total Liabilities	<u>20,206,246,880</u>	<u>12,534,196,846</u>
NET WORTH (according to related statement)	<u>43,731,890,804</u>	<u>30,618,183,533</u>
TOTAL LIABILITIES AND NET WORTH	<u><u>63,938,137,684</u></u>	<u><u>43,152,380,379</u></u>

DEPOSIT GUARANTEE FUND
TRUST INCOME STATEMENT
for the fiscal years ended as of December 31, 2016 and 2015
(in Argentine Pesos)

	<u>12/31/2016</u>	<u>12/31/2015</u>
INCOME FROM FINANCIAL INVESTMENT		
Financial income from placements	5,708,278,327	3,373,172,235
Exchange rate difference	<u>3,688,784,697</u>	<u>5,138,059,688</u>
Subtotal Income from Financial Investments	9,397,063,024	8,511,231,923
Less:		
Interests from REPOs	(1,437,974)	(960,647)
Commission from Management and Investments Custody	<u>(85,803)</u>	<u>(959,249)</u>
Total Income from Financial Statements	<u>9,395,539,247</u>	<u>8,509,312,027</u>
 INCOME FROM ASSISTANCE TO FINANCIAL INSTITUTIONS		
Interests from granted loans	3,841,600	3,683,754
Dividends	950,000	950,000
Income from sale of preferred stock	<u>3,810,411</u>	<u>3,800,000</u>
Total income from assistance to financial institutions	<u>8,602,011</u>	<u>8,433,754</u>
INCOME FROM ASSET MANAGEMENT		
Income from collection-recovery of assigned receivables, net of related expenses	11,147,926	7,171,958
Increase of provisions on loan portfolio, assets under financial leasing and other receivables	(1,426,807)	(2,812,494)
Income from recoveries of financial trusts and portfolio acquisition, net of related expenses	6,209,573	3,928,459
Receivables exchange rate difference and other receivables	128,934	250,066
Net Income from fixed assets	1,341,592	(500,492)
Net Income from other assets	<u>269,331</u>	<u>2,468,581</u>
Total Income from asset management	<u>17,670,549</u>	<u>10,506,078</u>
ADMINISTRATIVE EXPENSES	(95,729,089)	(69,298,192)
OTHER INCOME	<u>2,781</u>	<u>-</u>
Profits for the fiscal year	<u>9,326,085,499</u>	<u>8,458,953,667</u>

INDEPENDENT AUDITORS' REPORT

To the Directors of

SEGURO DE DEPÓSITOS S.A.
TRUSTEE OF THE DEPOSIT GUARANTEE FUND
Legal domicile: San Martin 344, 12th floor
Autonomous City of Buenos Aires

I. Report on the trust financial statements

Introduction

1. We have audited the attached trust financial statements of the DEPOSIT GUARANTEE FUND (“the Fund”) that includes: (a) the trust balance sheet as of December 31, 2016, (b) the trust income statement, the statement of changes in net worth and the statement of cash flow for the fiscal year then ended, and (c) a summary of the significant accounting policies and other explanatory information.

Duties of the Board of Directors of the Trustee of the Fund in relation to the trust financial statements

2. The Board of Directors of Seguro de Depósitos S.A., in its capacity as Trustee of the Fund, is responsible for the reasonable drafting and filing of the attached trust financial statements pursuant to the Argentine professional accounting regulations in force in the Autonomous City of Buenos Aires. It is further liable for the internal control that it deems necessary for the drafting of financial statements free of significant misrepresentations based on mistakes or irregularities.

Duties of the auditor

3. We are liable for the rendering of a report on the attached trust financial statements based on our audit conducted. We have performed our work pursuant to the auditing regulations set forth in the Technical Resolution No. 37 of the Argentine Association of Professional Councils of Economic Sciences. Such regulations establish that the auditors must comply with ethical requirements and that we have to plan and perform our obligations with the purpose of obtaining a reasonable degree of certainty about the lack of significant misrepresentations in the financial statements.

An audit implies the application of procedures to obtain items of evidence that support the information and figures described in the financial statements. The selected procedures depend on the professional opinion of the auditor, who evaluates the possibility of relevant misrepresentations in the financial statements caused by mistakes or irregularities. To conduct this risk examination, the auditor considers the internal control of the Trust Company regarding the relevant aspects for the reasonable drafting and submittal of the Fund’s financial statements, in

order to select the auditing procedures that are suitable according to the circumstances but not with the purpose of rendering an opinion on the effectiveness of the current internal control system of the Trust Company. An audit further includes an evaluation of the suitability of the used accounting policies and of the reasonability of the accounting estimations made by the Company's Board of Directors, as well as an evaluation of the submittal of the financial statements as a whole.

We consider that the conducted examination is a sufficient and reasonable ground to support this auditor's report.

Opinion

4. In our opinion, the trust financial statements attached hereto reasonably reflect, in all significant aspects, the financial position of the DEPOSIT GUARANTEE FUND as of December 31, 2016, as well as the income statement and cash flows for the fiscal year then ended in accordance with the Argentine professional accounting regulations in force in the City of Buenos Aires.

II. Report on other legal and regulatory requirements

In compliance with the current provisions, we hereby state that:

- a) The trust financial statements mentioned on paragraph 1 are kept on the Inventory and Balance Sheet book and are based on the accounting records kept in all formal aspects pursuant to the current legal regulations.
- b) As of December 31, 2016, there was no accrued debt as social security contributions for the benefit of the Argentine Integrated Retirement System, as evidenced on the accounting records of the Fund.

- c) We have applied the procedures to prevent asset laundering and terrorism financing as set forth in the current professional regulations.

Autonomous City of Buenos Aires,
February 7, 2017

PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.
C.P.C.E.C.A.B.A. [Professional Board of Economic Sciences of the
City of Buenos Aires] Volume 1 – Folio 13

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