

# 2014 Annual Report

Banco de la Provincia de Buenos Aires



**Banco Provincia**   
De tu lado



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## 1. Evolution of the Macroeconomic Context

### 1.1. Real Sector

In 2014, global growth strengthened though a heterogeneous pace of growth among economies was observed. According to estimates provided by the International Monetary Fund (IMF), global economy showed an expansion similar to that of the previous year (3.4%); developed markets improved their performance from 1.4% to 1.8% and emerging markets decelerated their growing pace from 5.0% to 4.6%. The most remarkable event in 2014 was the consolidation of US growth, only affected by unfavorable weather conditions at the beginning of the year. This allowed the completion of the asset purchase program and the dollar's global strengthening. However, adverse events, such as a rising geopolitical tension and the fall in raw materials (especially in oil), resulted in market volatility, mainly in emerging economies.

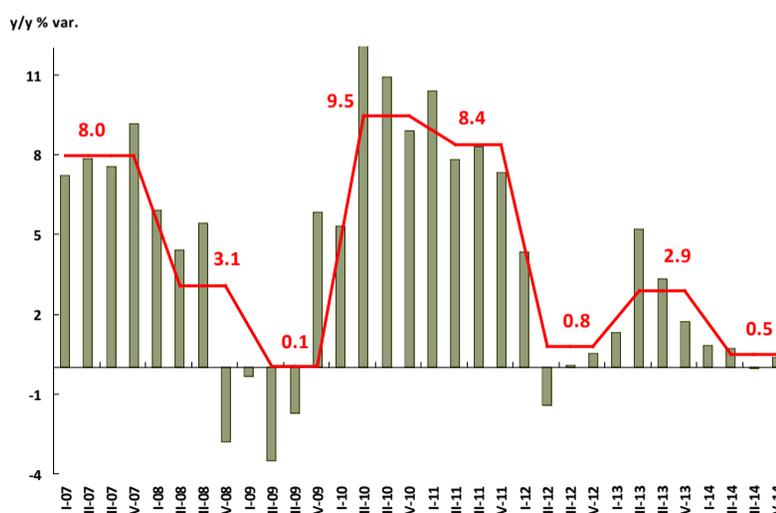
Advanced economies continued their growing trend, mainly focused on the US performance and the Euro-zone's exit from recession. The Euro-zone improved its level of activity by 0.9%, interrupting two consecutive contractive years. This was boosted by the consumption and export recoveries in Germany and Spain. However, Euro Area's economy maintained a volatile and measured growth pace due to high indebtedness levels (public and private) and a fiscal drag, which encouraged expansionary monetary programs. The dynamism of Japan's economy declined after the increase in the consumption tax rate despite higher infrastructure spending.

Within a framework of a lower increase in global trade, falling raw material prices and reduced capital inflow, the expansion of the emerging and developing economies stood at an annual 4.6%, below the 5.0% recorded in the previous year, accounting for the lowest variation since 2010. Among these countries, China's growth (7.4%) slightly decelerated and India expanded from 6.9% to 7.2%. Middle East's performance maintained an upward trend boosted by exported volumes while Russian economy decelerated significantly as a result of weaker investments, capital outflows due to geopolitical tensions and strong ruble depreciation that followed the decline in oil prices.

The Latin America and the Caribbean region expanded by 1.3% in 2014, 1.6 percentage point (pp) below 2013. In general, Latin American economies were affected by a drop in raw material prices, impacting on their income levels. An uneven pace of growth was observed in the region: Mexico's growth rate moved up 2.1% per annum in line with the greater demand from the United States; Brazil's activity level stagnated due to its tightened monetary policy, lower investments and moderate consumption levels in a context of inflationary pressure and growing fiscal deficit.

In this scenario, Argentina showed a slight increase in its activity level since the reduced demand was offset by the lower supply of imported goods. According to data provided by the INDEC (National Statistics Institute), the economic activity grew 0.5%, showing a lower dynamism than in 2013 (3.0%) due to the stagnation in goods' production and a modest rise in the production of services.

**Evolution of Gross Domestic Product (GDP)  
Year on year (y/y) variation, in constant prices**



Source: INDEC



In terms of supply, goods production grew 0.1%, showing a deceleration with respect to the 2.2% expansion observed in 2013. Industrial sectors showed a heterogeneous performance, standing out the increase in primary sector activities which offset the behavior of the secondary sectors. The major improvement was registered in agriculture, livestock, fishing and silviculture (4.3%), accounting for 0.7 pp of goods increase. This hike was mainly due to the performance of the agricultural sector with larger harvested volumes and planted surfaces. Fishing rose 1.3%; as regards mining and quarrying, the oil and gas production stabilized and a significant increase was observed in oil related services boosted by substantial investments. Gas, water and electricity demand grew 0.5% mainly due to high household consumption. The manufacturing and construction sectors decreased 1.3% and 0.7%, respectively. Likewise, the automobile production and its related chains recorded a sharp decrease, negatively affecting the industry. Uncertainties at the beginning of the year and higher borrowing costs decelerated the performance of the construction sector which was supported by governmental measures aimed at granting credit facilities for construction, enlargement and refurbishment.

Service-producing industries rose 0.6% during the year, showing a deceleration when compared to the 3.6% improvement recorded in 2013. Financial brokerage stood as the most dynamic segment (11.0%) and accounted for 1 pp of the service sector's growth. Public administration, education and health services, hotels and restaurants (stimulated by domestic and inbound tourism), transport and communications and hiring of household services also improved. On the other hand, trading activities (-1.0 pp), corporate and rental services declined. Community services remained unchanged with respect to the previous year.

Import volumes shrank 12.6% due to lower domestic demand because of changes in relative prices. Implied prices of imported goods and services increased by 50% as against 2013, resulting in a declining demand for foreign services, mainly transport of goods and tourism services, and a decreased inflow of goods, particularly automobiles, spare parts and capital goods. Despite the increase in import prices and the drop in volumes, the import share measured at current prices over total supply remained without significant changes (from 12.6% in 2013 to 12.7% in 2014).

On the demand side, the growth of GDP was mainly due to public consumption. The performance of the remaining components declined, showing a slight decrease when compared with imports. Public consumption rose 2.8%, accounting 10.9% of GDP, 0.3 pp over 2013. Private consumption declined 0.5% per annum, being its first negative variation since 2003. This variation was the result of higher precautionary savings by families, higher financial costs and increased relative prices of goods with respect to salaries.

The demand for goods and services destined to investment drop 3.6% y/y and the investment rate stood at 19.7% of GDP, 1.3 pp below the previous year. The decrease was observed in durable production equipment (-12.5%) due to fewer purchases of transport equipment which fell 32.5%. The acquisition of machineries and equipment declined just 4.8%, fueled by credit facilities at subsidized rates. In a breakdown analysis, the sharpest decline was observed in Argentine products that fell 15.5%, while imports decreased 10.6%. The difference is explained by the fall in the Argentine production of transport equipment. Construction spending rose 1.0% showing the Government's efforts to finance the construction, refurbishment and enlargement of houses through the Pro.Cre.Ar. line of credit. Among the remaining components of investment, research and development grew 15.1%, livestock increased 6.0% and cultivated biological resources rose 1.0%; on the contrary, investments in trees, crops and plants declined 1.8%.

According to data provided by the INDEC, export volumes decreased 8.1% in 2014 due to a lower demand for goods.

With respect to the labor market, the unemployment rate stood at 6.9%, of the economically active population (EAP), a 0.5 pp rise over 2013. Such rise was mainly due to the lower dynamism of the labor market; the employment rate moved from 42.7% to 42.1% of total population. Moreover, the EAP fell 0.4 pp with respect to total population. Wages and salaries grew 33.7% per annum, mainly boosted by private sector salaries. According to the INDEC's Salary Index, informal private sector wages rose 40.0% per annum while those of the formal sector and public administration grew 31.5% and 33.9% per annum, respectively.



## 1.2. Public Sector

Public sector accounts continued their downward trend, showing a deficit at the primary level and after interest payment. The increase in spending remained high mainly due to the significant disbursements on account of pension payments, transfers to provinces and the private sector, including both social and financial expenditures.

Tax revenues amounted to \$1,169,683 million, a 36.2% y/y increase, so that the revenues/GDP ratio reached 23.8%, 1.3 pp over 2013. Out of such amount, \$318,623 was automatically transferred to the provinces.

Taxes related to the activity level evidenced the best performance, showing a 40% increase with respect to the previous year. This performance was mainly sustained by the 45.5% rise in the Income Tax, amounting to \$274,478 million. This situation derived from the reporting of greater income and a wider base of taxpayers (both individuals and companies) charged with the highest tax rates. The collection of the Value Added Tax (VAT) rose 33.6% up to \$336,226 million, mainly fueled by higher families' consumption and a rise in prices. The VAT increase could have been higher but it was affected by an 83.5% hike in tax refund. Taxes on fuels grew 43.5% while excises taxes rose 36.5% and the collection of Taxes on Debits and Credits in Bank Checking Accounts increased by 35.8%.

Income from foreign trade improved, accompanied by a change in relative prices, despite a fall in traded volumes. Import Duties jumped 27.4% and Export Duties rose 51.6%, respectively.

Income from Social Security grew by 29.5%, totaling \$297,504 million, as the result of the increase in wages and salaries. At the same time, cap amounts for personal contributions were raised.

A substantial 90.2% y/y rise in non-tax revenue was observed, increasing its share in revenues by 4 pp and accounting for 15.5% of total revenue. This hike was mainly due to property income, larger remittances of funds from the BCRA and interest from the National Social Security Administration (*ANSeS, for its Spanish acronym*). The National Government's total income expanded 42.6% y/y and grew \$305,302 million.

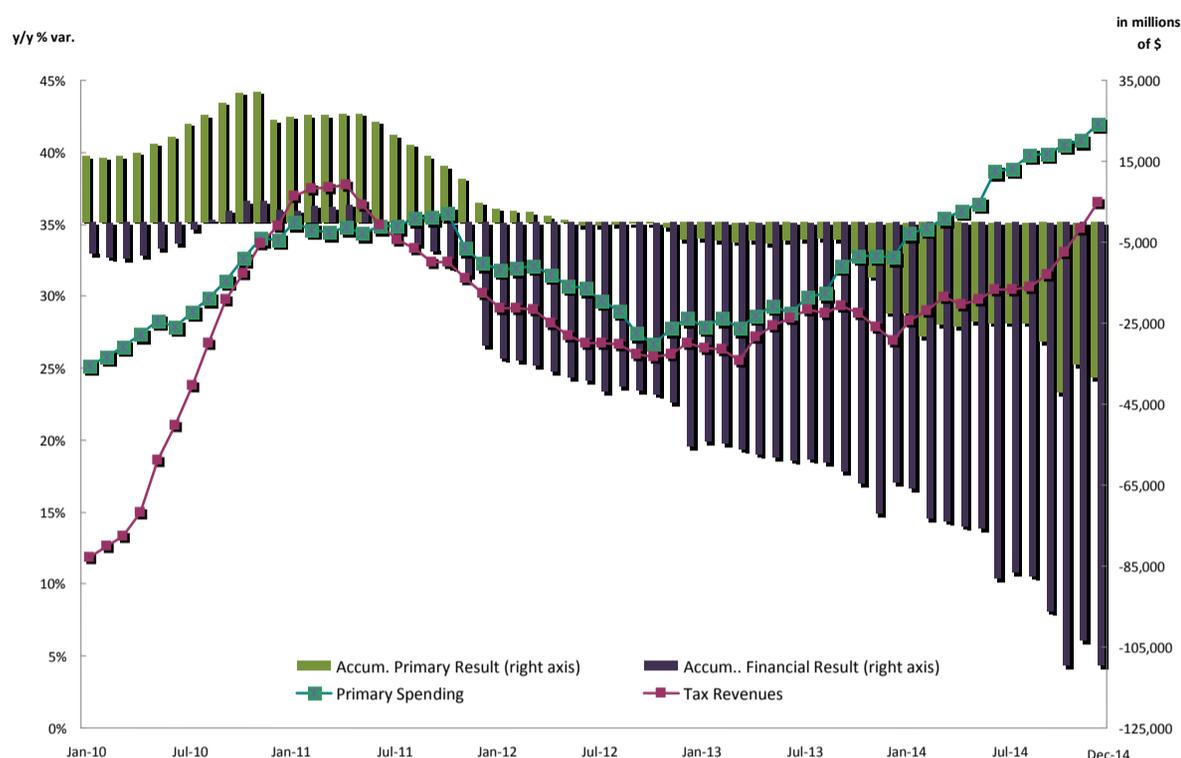
Spending remained high with a 44.8% increase as against the previous year, evidencing increases in primary spending and interest payment.

Primary spending grew 43.4% totaling \$1,061,781 million, dynamized by higher transfers of subsidies, capital expenditures, social security contributions and other current expenditures. Among the traditional captions, social security contributions rose 33.6%, a growth pace similar to 2013, due to the implementation of the mobility policy on pension payments, contributory and honorary pensions. Wages and salaries improved 40.9% as a consequence of the agreed salary increases and the greater number of employees. Both segments accounted for 37.9% of the total expenditure increase.

Mention should be made of the higher contribution to capital investment which expanded 46.2% and accounted for 7.8% of the increase in primary spending. With respect to direct real investment, expenditures related to the construction and maintenance of roads and highways, and the import and nationalization of railway transport assets stood out. With regard to capital transfers, the financial assistance to Enarsa for the execution of energy infrastructure works and the implementation of the Solidarity Federal Fund are worth mentioning. With respect to financial investment, the contribution to the Bicentennial Credit for Housing Program (Pro.Cre.Ar) Trust Fund may be highlighted.



### Argentine Non-Financial Public Sector 12-month accumulated figures, in millions of \$, y/y % variation



Source: Ministry of Economy and Public Finance

Spending related to current and capital transfers to provinces rose by 37.5% without including automatic transfers.

Among primary spending, transfers to the private sector grew 59.1% substantially due to higher disbursements on account of financial assistance for the implementation of the energy policy, increased transfers to national universities and larger subsidies and social benefits such as the Universal Child Allowance. Mention should be made of payments made to gas producing companies to help improve national self-generation under the Natural Gas Additional Injection Stimulus Program. Other expenditures moved up 49.6% mainly driven by greater costs associated with imports of fuels.

Interest payment on national public debt amounted to \$71,158 million, accounting for an annual 69.4% rise. This hike was mainly boosted by greater expenditures in foreign currency caused by increased exchange rate, interest payment for the normalization of the debt owed to the Paris Club and issuance of debt to pay compensation for the expropriation of 51% of YPF S.A.

In terms of GDP, 2014 primary spending stood at 24.2%, a 2.1 pp rise with respect to the previous year; total income grew 23.3%, 1.9 pp above 2013. Thus, the primary result was -0.9% of GDP, 0.2 pp above the figures of 2013.

### 1.3. Monetary System and Money Market

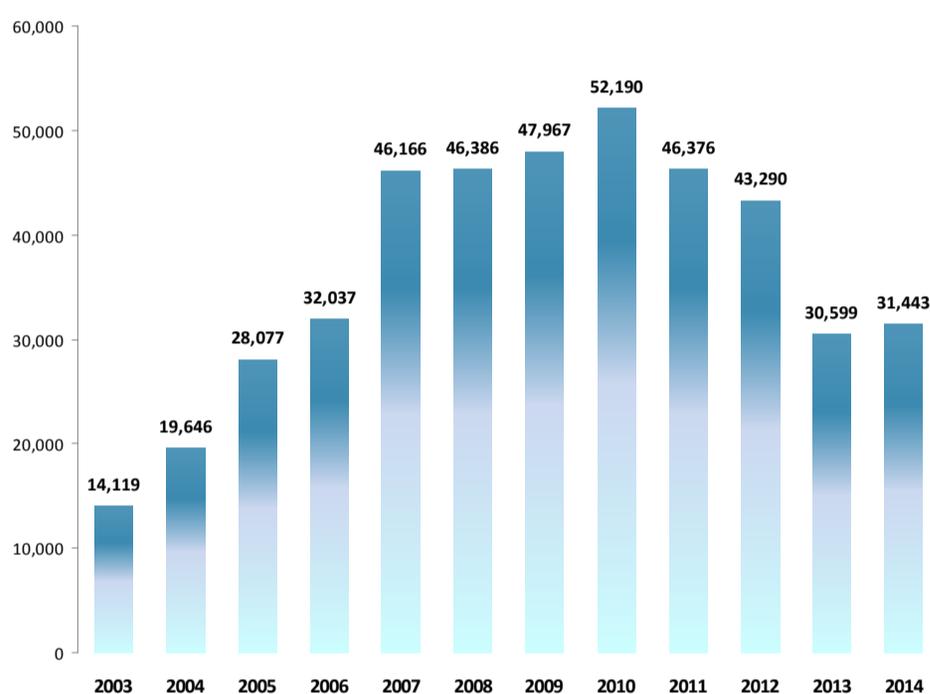
During 2014, the Argentine Central Bank (BCRA) adopted monetary policy measures to restrict volatility of monetary and exchange markets, to encourage lending to the productive sector and to stimulate savings in pesos. In February, it reset the limit for the Net Overall Position of financial institutions in foreign currency to an equivalent amount of 30% of their capital. Such figure was reduced to 20% in September. This measure helped increase the supply of foreign currency and reduce the exchange market pressures. In July, the BCRA and the Central Bank of the People's Republic of China entered into a new currency swap agreement for an equivalent amount of US\$11,000 million at a 3-year term. The purpose of this agreement was to improve financial conditions for economic development and bilateral trade. Other regulations were also imposed to stimulate savings in pesos and encourage lending to the private sector. They included the setting of minimum interest rates on retail fixed-term deposits denominated in pesos and the increase in the deposit guarantee coverage. The monetary authority also adopted a reference interest rate for consumer and pledge



loans in order to reduce lending costs for lower-income sectors. Moreover, financial institutions should obtain the prior authorization of the BCRA to increase the cost of basic financial products and services.

Within this framework, international reserves stock went up 2.8% y/y, from US\$30,599 million at December 2013 to US\$31,443 million at 2014 year-end, mainly boosted by the BCRA's net foreign currency purchases for US\$5,900 million and the implementation of the currency swap agreement with the Central Bank of the People's Republic of China.

**BCRA International Reserves**  
**In millions of dollars, last day of each year**  
**(excluding National Government Securities)**



Source: BCRA.

Total monetary base improved 22.6%, from an average of \$361,410 million at December 2013 to an average of \$442,970 million at December 2014. The public sector played a significant role in such expansion since it increased by \$161,508 million y/y, mainly as a result of temporary advances granted by the BCRA to the Treasury; while, to a lower extent, the financial sector contributed with \$48,333 million. BCRA's securities denominated in pesos and reverse repo transactions played a contractive role on the monetary base (\$121,448) million and performed differently from 2013 when the monetary base expanded by \$5,484 million. After keeping their expansion pace stable along most of 2014, monetary aggregates accelerated in the last twelve months due to the performance of means of payment and fixed-term deposits from the private sector. The variations of the broadest monetary aggregate in pesos (total M3) and private M3 were 24.3% y/y and 26.3% y/y, respectively. The monetary aggregate M2 rose 29.7% y/y.

In the second half of the year, the BCRA adopted two measures which significantly influenced the evolution of monetary market interest rates. The first measure introduced changes in the interest rates on repo transactions to reduce the volatility of the rest of short-term rates. Thus, after remaining stable during the first nine months, reverse repo interest rates grew between 4 pp and 4.5 pp in October, up to 13% and 14% per annum for overnight and 7-day transactions, respectively. Repo interest rates went up between 5 pp and 6 pp, up to 16.0%, 17.0% and 20.0% per annum for overnight, 7-day and 60-day transactions, respectively. Rates on repo transactions at a variable rate up to 90 days were equivalent to the BADLAR private banks rate plus a 2 pp margin. The second measure was to encourage savings instruments in domestic currency. In October, the BCRA imposed minimum interest rates on fixed-term deposits of natural persons, provided that total deposits per individual with the banking institution do not exceed the amount of the deposit guarantee coverage. Such minimum interest rates were set as a percentage of the reference interest



rate, the LEBAC rate closest to 90 days. To further protect investors, the deposit guarantee coverage was increased from \$120,000 to \$350,000 per holder.

In the second half of the year, the interest rates of the Bills issued by the BCRA in the primary market remained stable in shorter terms, but showed improvements in longer terms. As a result, the yield curve stepped up. Thus, the interest rates on LEBACs issued at predetermined rates for 100 and 120-day terms stayed at 26.9% and 27.7% per annum, respectively; while the interest rate on longer term instruments (360 days), stood at an annual 29.3%.

At year-end, total peso deposits in the financial system recorded an annual 25.1% growth due to a greater dynamism in private and public sector placements (28.8% and 16.7%, respectively). The growing pace of private sector deposits was fueled by the performance of demand deposits, which soared 30.2% y/y. Such figure was dynamized by deposits in checking (33.3% y/y) and savings accounts (27.3% y/y). Fixed-term placements denominated in pesos rose 27.5% y/y, with a remarkable performance of the retail segment that expanded 32.1% y/y, while the wholesale segment (\$1 million or more) grew 23.7% y/y. Private deposits denominated in US\$ increased 7.5% y/y, mainly boosted by a 25.4% y/y rise in savings account deposits while fixed-term placements showed a 2.6% y/y drop. Total private deposits went up 30.2% y/y as a consequence of demand deposits (32.6% y/y) and fixed-term deposits (27.9% y/y).

Borrowing interest rates performed differently in the retail and wholesale segments during the second half of the year. With respect to the retail segment, two phases in the evolution of borrowing interest rates paid to families were identified. In the first phase, a greater amount of deposits as against loans resulted in favorable liquidity conditions for a reduction. In the second phase, financial institutions complied with the BCRA's requirements on minimum interest rates for deposits of natural persons. Specifically, the interest rate applied by private banks to retail deposits averaged 18.4% per annum in September, 1.6 pp below June figures; but it increased nearly 5 pp to reach 23.2% by the end of December, thus the annual increase was 6.7% pp.

With regard to the wholesale segment, BADLAR private banks rate showed a downward trend in the third quarter and remained fairly stable in the last quarter of 2014. Thus, it averaged 20% in December, 3 pp below the level attained in June. This figure was similar to that of December 2013.

Total loans granted by the financial system to the private sector rose 20.4% y/y. Discount of documents and advances in checking accounts grew 20.2% y/y and 17.9%, respectively. Moreover, consumer loans also improved and recorded increases of 37.3% y/y and 19.1% y/y in the case of credit cards and consumer loans, respectively. Mortgage loans and pledge loans expanded 10.1% y/y and 4.5% y/y, respectively. Loans in foreign currency fell 9.9% y/y (US\$367 million), mainly due a drop of 15.0% in unsecured loans (US\$413 million), 18.4% y/y in credit card payments (US\$66 million) and 30.9% y/y in mortgage loans (US\$41 million), partially offset by advances in checking accounts which expanded 142.0% y/y (US\$59 million).

Lending interest rates applied on loans in pesos to the private sector fell in the last semester, showing a heterogeneous performance during this period. They were affected by specific factors related to the different types of loans. Among commercial facilities, the interest rate on advances in checking accounts stood at annual 30.9% in December, 1.3 pp below the figure recorded in June and 3.3 pp above the figure attained in the last twelve months. The interest rate applied on unsecured loans averaged 24.2% at December 2014, accumulating a 2.4 pp decrease since June and ending the year 1.9 pp above the level of December 2013. As a result of the BCRA's regulation on maximum interest rates on consumer and pledge loans which came into effect since June, the interest rate applied on consumer loans recorded a significant decrease in June and July, and then remained fairly stable in line with the evolution of the LEBACs interest rate at 90 days. In the case of consumer loans, the weighted average rate stood at 37.7% at year end, representing an almost 7 pp drop as against May (month prior to the enforcement of the regulation on minimum interest rates) and 1.6 pp below the figures recorded in December 2013. The interest rate applied on pledge loans reached 26.4% at year-end, increasing 1 pp since May and 5.3% since December 2013, but well below the maximum limits set. Interest rates on credit card financing stood at an annual 42.8%, a 5.6 pp rise as against December 2013, while interest rates on mortgage loans grew 5.7 pp, to 22.3% per annum.

According to the guidelines of the new BCRA's Charter, effective since April 2013, the Central Bank kept on using a set of tools which helped it comply with its various goals, particularly regarding credit policy, under two lines of action. On the one hand, reserve requirements for financial institutions were readjusted in order to favor SMEs' financing and, on the other, measures aimed at granting a greater number of long term productive loans were introduced. The BCRA continued supporting the expansion of the Bicentennial Productive Financing Program, which ended in December with a \$311



million disbursement. Thus, total resources allocated under this program since its inception by mid-2010 amounted to \$8,191 million. The BCRA also implemented the fourth and the fifth stage of the Credit Facility for Productive Investment program to which financial institutions must allocate 5% of their peso deposits from the non-financial private sector. The program offers lending facilities at lower rates than those prevailing in the market with a reimbursement term of at least three years. Fifty percent of loans granted under this facility must be destined to SMEs. Therefore, Credits for Productive Investment stood as a source of financing aimed at boosting long term investment in the productive sector.

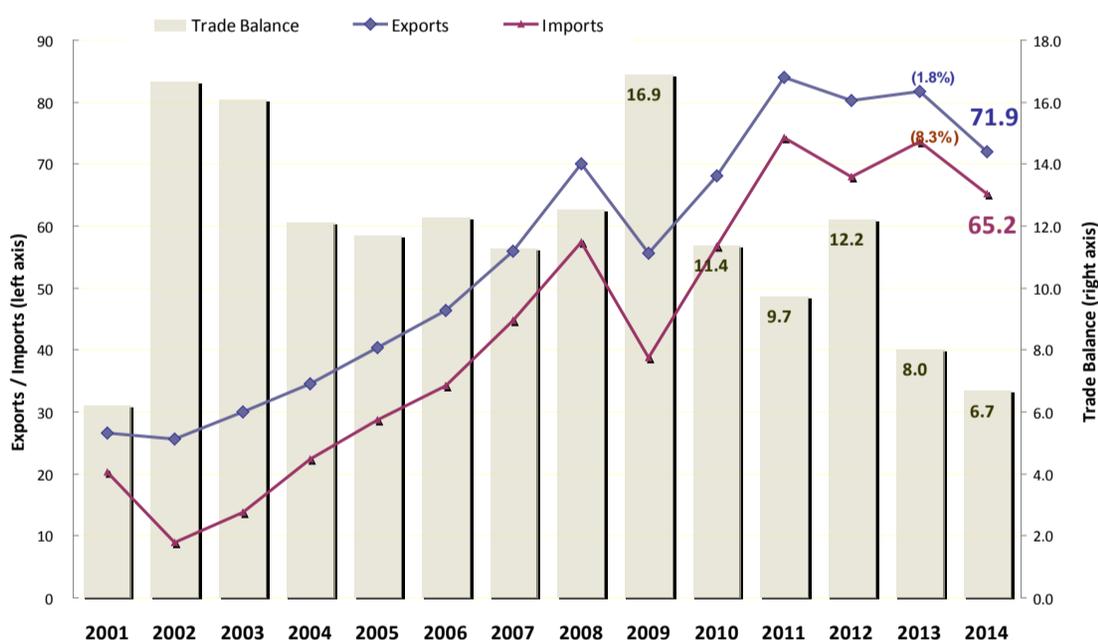
In aggregate terms, financial brokerage showed a slight decrease since the total amount of peso deposits and loans/GDP ratio stood at 25.9%, a 0.9 pp drop as against 2013. Therefore, the upward trend of the last three years came to a halt and kept a level similar to that of 2005 (26.0%). In a breakdown analysis, total peso loans reached 10.9% of GDP, a 0.3 pp drop with respect to the previous year and total peso deposits accounted for 15.0% of GDP, 0.6 pp below 2013.

#### 1.4. External Sector and Foreign Exchange Market

In 2014, trade of goods showed a contractive trend. Exports fell 11.9% y/y, up to US\$71,935 million and imports decreased 11.4% y/y, up to US\$65,249 million. Trade balance recorded a US\$6,686 million surplus, 16.5% below 2013.

When measured at current prices, the trade/GDP ratio (value of exports and imports of goods and services divided by GDP), stood at 30.1%, exhibiting a slight fall with respect to the previous year (30.7%).

**Balance and y/y Variation of Imports and Exports of Goods  
In billions of US\$**



Source: INDEC

Despite the general decrease in the international prices of raw materials, the contraction of exports was mainly explained by lower export volumes (10%) and a drop in prices (2%). Decreases were recorded in all items. Due to their significant share in the export basket, the fall in the exported volumes of Manufactures of Industrial Origin (MIO) and Primary Products (PP) was a key factor in the contractive performance.

In a breakdown analysis, PP was the most affected segment since it contracted 20% y/y, totaling US\$14,977 million. This was the result of a reduced export of cereal grains (-US\$3,083 million).



Exports of Fuel and Lubricants declined 18% y/y, due to the decreased exportable volume caused by the lower energy production at local level. Exported volumes amounted to US\$4,660 million, accounting for the lowest figure since 1999. MIO totaled US\$24,145 million, 15% below the figures attained in 2013, mainly due to lower exports of vehicles (-US\$1,913 million). Exports to Brazil declined 18% y/y because of a lower demand. In 2014, sales of Manufactures of Agricultural Origin (MAO) reached US\$28,153 million, 3% below 2013, despite a better harvest performance. In fact, volumes fell 2%, in spite of the higher supply, while prices were 1% below the figures of 2013. In breakdown analysis by product, such decrease was partly due to US\$952 million reduction in exports of fats and oils.

Imports contracted 11%, as a consequence of a 12% drop in volumes, since prices went up 1% in a context of tighter trade control. Mention should be made that all segments contracted, except for capital goods.

The automotive industry was the most affected, showing a 50% y/y drop and totaling US\$3,580 million. The purchase of spare parts and accessories for capital goods amounted US\$12,461 million, 22% below 2013. The purchase of intermediate goods shrank 4%, totaling US\$18,754 million. This performance was associated with the drop in manufacturing production, specially iron ore and aluminum oxide. The acquisition of consumer goods fell by 10.6% y/y, up to US\$6,680 million. Imports of fuels and lubricants decreased 4%, reaching US\$10,903 million. On the contrary, the purchase of capital goods recorded a historic peak, amounting to US\$12,622 million, 3% above 2013.

With regard to bilateral trade relations, the main export destination was the MERCOSUR, which acquired 27.8% of total volume. The result of this trade was a US\$4,593 million surplus. In 2014, the international trade with Brazil, Argentina's major trading partner, showed a US\$456 million surplus, thus reversing the 2013 deficit (US\$1,882 million).

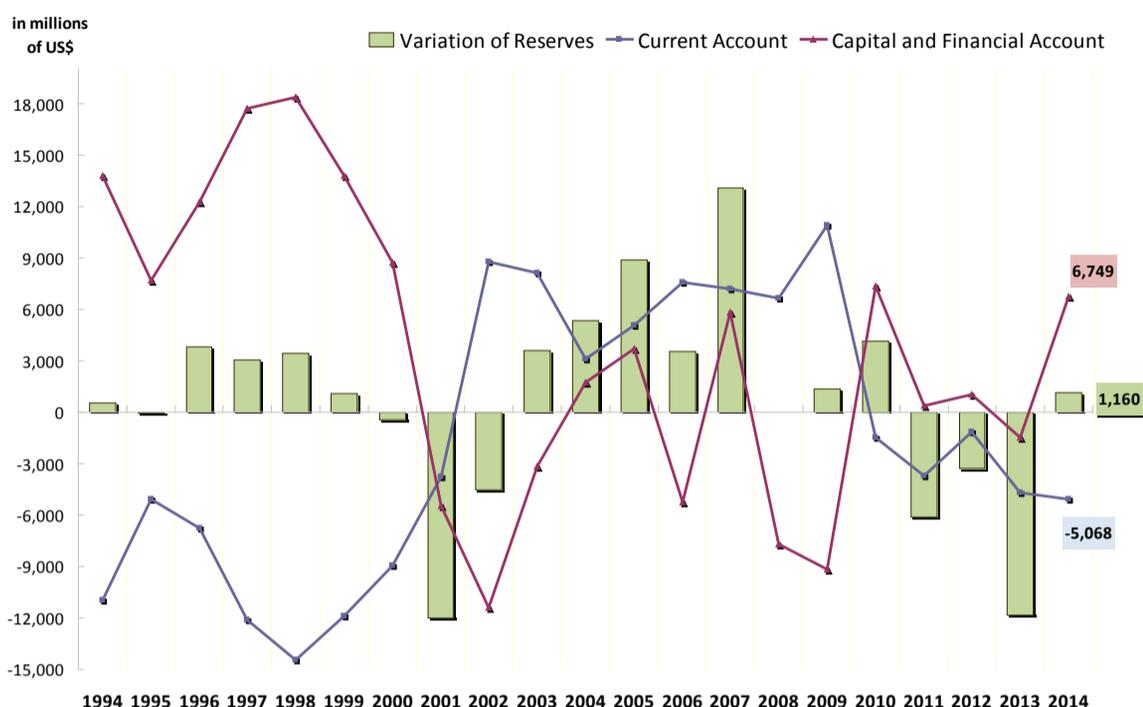
In terms of trade of services and according to the Balance of Payments, the deficit shrank as against 2013, reaching US\$3,060 million. This performance was due to purchases related to tourism and transport, which drop US\$1,685 million. The deficit in the return-on-investment account, the third item in the current account, slightly widened with respect to the previous year since the increase in accrued dividends and profits was somewhat above the level of the interest payment reduction. Thus, the account recorded a US\$11,402 million deficit, US\$375 million over 2013.

The reduced deficit in services was not enough to offset the small surplus in goods and return-on-investment, resulting in a higher deficit in the current account of US\$5,068 million, a 7.9% y/y hike. So, the deficit was 0.9% in terms of GDP.

The capital and financial account showed a significant capital inflow which amounted to US\$6,749 million. The non-financial private sector recorded net capital outflows for US\$2,464 million, mainly due to changes in YPF's ownership structure and the formation of foreign assets. On the contrary, the non financial public sector accrued capital inflows for an amount of US\$5,033 million, largely a consequence of the issuance of debt for the payment by YPF to Repsol and higher disbursements to the international lending institutions. The banking sector also exhibited a surplus of US\$4,124 million, out of which US\$3,200 million accounted for currency swap agreements entered into by the BCRA and the Central Bank of the People's Republic of China and loans granted by other international lending institutions.

The net effect of the current account and the capital account balances showed that foreign currency inflows exceeded outflows. So the BCRA's stock of international reserves increased US\$1,160 million, as against the negative variation of US\$11,824 million observed in 2013.

## Balance of Payments



Source: INDEC

## 2. Evolution of the Microeconomic Activity

### 2.1. Management Policies

#### 2.1.1. Financial Policy

In 2014, the Bank directed its financial strategy at raising funds to support its strong credit activity in line with the purpose of repositioning itself second in the ranking in terms of loans to the private sector and optimizing the financial margin in a macroeconomic context that called for the implementation of fine-tuning policies.

On the basis of a detailed analysis of market conditions, prevailing trends and the Bank's financial statements, a reduction in interest rates on consumer loans was proposed in April. Such decision produced excellent results, mainly due to its anticipative nature, since in June the Central Bank fixed a limit on interest rates for that segment. In February, the Bank ranked first in the consumer lending segment and succeeded to rise its monthly growth rates, thus recording an almost 35% improvement during the year, well above the 19% registered by the whole financial system.

In October, the enforcement of Communication A 5640 of the Central Bank setting minimum rates for fixed term retail deposits of up to \$350,000 resulted in an increase in the funding cost and the generation of distortions with respect to interest rates paid to companies and wholesale customers. Therefore, the Bank decided to pay the rates determined by the Central Bank to all individuals regardless of the deposited amounts. Thus, in the last quarter of 2014, fixed-term deposits in the Bank grew higher than in the rest of the financial system.

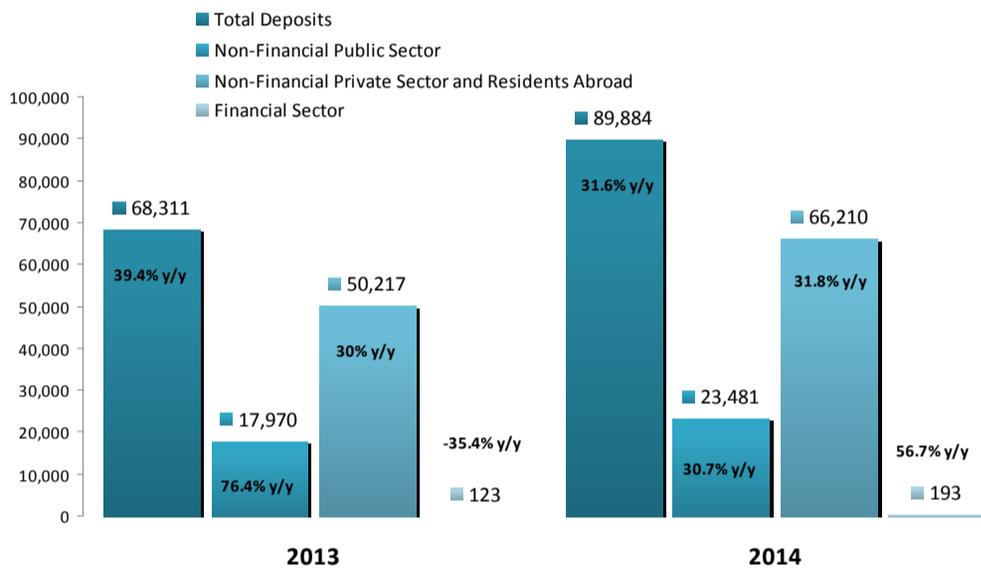
The effective financial measures adopted during the year resulted in a 2.28 pp annual increase of the spread between the yield of the main assets and the average cost of deposits, moving from 10.21% in 2013 to 12.49% in 2014.

This was accompanied by a strong improvement in the liquidity ratio. Though somewhat restricted in the last quarter of the year due to seasonal factors, its minimum level was higher as a consequence of the mentioned measures. This way, the broad liquidity indicator in terms of peso deposits achieved record levels by mid 2014 and averaged 22.3% as against 17.5% in 2013.

• **Evolution of Deposits**

In 2014, the Bank's total deposits grew faster than the System's placements due to the dynamism evidenced by different sectors and currencies, except for private sector dollar deposits that increased at a slower pace. Total deposits went up 31.6% y/y, and a similar behavior was recorded by private and public sector placements, which grew 31.8% and 30.7% y/y, respectively.

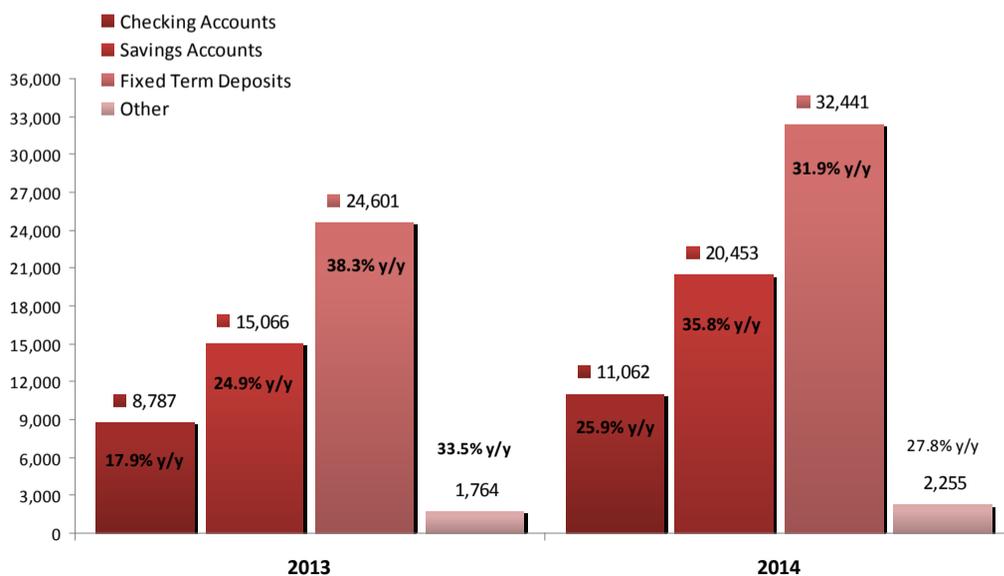
**Consolidated Total Deposits**  
In millions of \$



Private sector deposits significantly expanded, boosted by savings accounts (35.8% y/y), fixed-term deposits (31.9% y/y) and current accounts (25.9% y/y). It was an even performance, as opposed to 2013, when the different kinds of deposits recorded manifold variations.

The y/y expansion of term deposits in 2014 was remarkable and greater than the System's; however, it was below the figures of the previous two years, when it stood at an annual 40%. Mention should be made of the larger increase in retail deposits during the year, as against placements in the rest of the System.

**Private Sector Deposits**  
In millions of \$



The increased amounts deposited with the Bank as compared with the rest of the System translated in an expansion of the market share, which rose from 9.06% at December 2013 to 9.23% at December 2014 in terms of total deposits, and from 9.14% to 9.26% with respect to private sector placements. In private sector deposits, the Bank rose from the third to the second place in savings accounts and maintained its second place in the ranking of fixed-term deposits and investments.

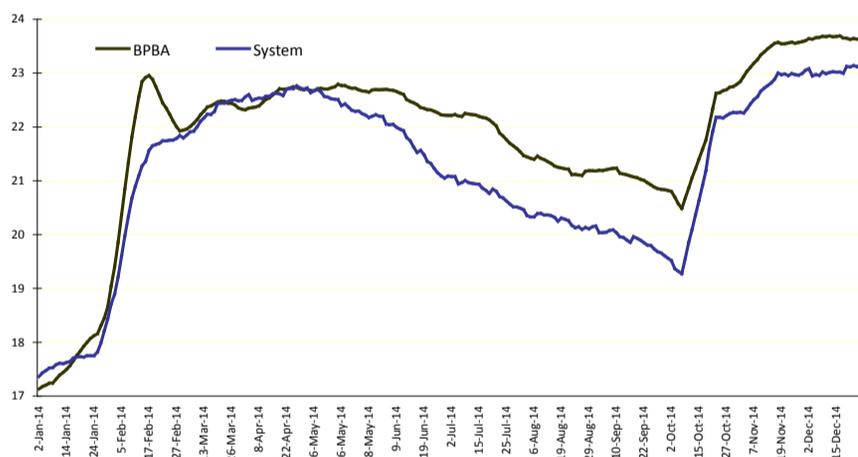
- **Evolution of Borrowing Interest Rates**

During 2014, borrowing interest rates showed an uneven evolution as a consequence of the macroeconomic context and the monetary policy implemented by the Central Bank. Thus, by year end, the rates for retail deposits surpassed those for wholesale placements.

Rates offered on retail and wholesale private sector fixed-term deposits showed an upward trend. Though the Bank and the banking system performed similarly, the Bank's rates evidenced a slight increase.

Interest rates paid on retail private sector deposits significantly improved in the first months of 2014; then they gradually went down but resumed their upward trend in the last quarter of the year.

**Evolution of Rates: Retail Private Sector**  
Annual nominal rate (10-days moving average)



In the case of wholesale deposits, the Bank's rates systematically stood above the market's performing similarly to the Financial System, with slight increases in the February/April period and in November and December.

**Evolution of Rates: Wholesale Private Sector**  
Annual nominal rate (10-days moving average)





- **Capital Markets**

Over the course of 2014, the Bank actively managed the global portfolio of government securities, optimizing the risk/yield ratio and complying with the new regulations of the BCRA regarding the limit of the Net Overall Position in Foreign Currency. Moreover, the Bank participated in the Exchange of Public Debt Securities proposed by the National Government. Like in previous years, the third party structured products and government securities portfolio under management amounted to \$1,412 million.

The Bank took part in the issuance, placement and settlement of the Province of Buenos Aires Treasury Bills Program. At the same time, it acted as arranger and underwriter of the Global Program for the Issuance of YPF S.A. Medium Term Debt Securities.

- **Financial Business**

The Board of Directors' Resolution No. 1916/13 of November 28, 2013 created the Financial Business Management. It is actively engaged in the generation of various financial businesses, with broad and planned strategies and a wide variety of market products.

In 2014, the Bank launched several campaigns oriented to raise funds from the wholesale and retail sectors in order to satisfy the existing financing needs. It succeeded in expanding its customer base without disregarding its funding cost.

The Bank improved the performance of Mutual Funds, increasing their capital by more than \$1,000 million; implemented the Fixed Term Deposit at Pre-agreed Rate product for companies, recording a rise of over \$400 million; maintained an active presence in social networks, mainly in Twitter where more than 3,800 tweets were posted and enlarged the number of followers; implemented the Investment Unit application, which includes asset prices, news, maturity agenda and videos describing different instruments; introduced Skype to improve customer relationship and reach an attractive market segment for the customer loyalty strategy; implemented the “*La información crea valor*” (Information Creates Value) training program in Regional Centers and Business Units through visits, workshop and videoconferences, training the staff on the Bank's financial products and making use of trading and competence analysis basic tools; launched the “Financial Inclusion” campaign in secondary schools, where a series of talks on different financial products were conducted for prospective customers. Moreover, the Bank took part in business meetings oriented to improve customer service and increased its participation in meetings, fairs and sport competitions so as to reinforce direct relationship with companies.

Business Officers received special training on the provisions of the new Law on Capital Markets and were appointed as Skilled Financial Advisors. Moreover, commissions on security purchase/sale transactions were adjusted. With the purpose of attracting new businesses, the synergy with the companies of Grupo Banco Provincia (GP) was strengthened and all payments related to the provincial debt were duly arranged. The Bank continued cooperating with the Government of the Province of Buenos Aires in the placement of bills and kept on successfully working on such placement.

## **2.1.2. Commercial Policy**

### **2.1.2.1. Loan Activity**

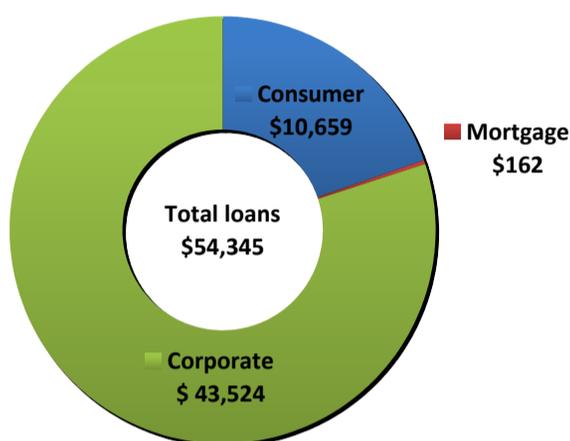
The Bank's marketing initiatives were developed in line with the original guidelines. They were oriented to meet the needs of different sectors and activities so as to reinforce market penetration, competing within the overall financial system and trying to overcome the obstacles arising from the prevailing situation without damaging the Bank's social role set forth in its Charter.

Among the main results obtained, mention should be made of:

- A 32% annual increase in total income from services. This is due to the greater relative expansion of transactions paid with credit cards, transactions channeled through the Procampo card and transactions related to debit cards and current accounts within a framework of adjustments to the fee schedule in line with the rules set forth by the Central Bank and market challenges.

- A y/y growth just above 35%, which accounted for \$54,345 million mainly due to an approximate 40% y/y increase in corporate lending (\$43,524 million), and, to a lesser extent, to a 23% y/y rise in consumer loans (\$10,820 million), including mortgage loans.

**Breakdown of Loans in 2014**  
Private Sector – In millions of \$



- The private sector domestic loan portfolio grew by about 35%, just surpassing \$52,000 million. The increase in balances amounting to \$13,000 million was mainly due to corporate lending, which grew by more than 35% as against the almost 30% growth of consumer loans.
- Comparing with the rest of the banking system, loans in pesos to the non- financial private sector performed better, surpassing by 15 pp the pace recorded by the whole system, thus allowing the Bank to increase its share in the market. In the last twelve months, the expansion was almost 1 pp and accounted for about 8.4% of the system's added value.

#### 2.1.2.1.1. Corporate Loans

The Bank kept on seeking to increase flexibility of lending terms and conditions and reinforce the dynamism and volume of the loan activity. It also fostered the development of additional loyalty mechanisms to promote the sale of products.

Among the measures implemented, mention should be made of:

- The expansion of the credit facility destined to finance working capital at a 27% fixed annual interest rate.
- Having granted all loans available under the third tranche of the *Fuerza Productiva* program, the Bank has begun to work on the fourth tranche, which will be in effect until December 31, 2015.
- The amendment to the term and rate of the credit facility destined to finance Agricultural Capital Goods, thus allowing for better conditions in the purchase of used products, which can not be financed through the productive investment facility.
- The execution of new subsidized agreements for agricultural sector companies oriented to stimulate the generation of value added at origin, economic transactions and an increase in transactions volume.
- The extension of maturities for agricultural producers from emergency areas with the purpose of avoiding disruptions in payment chains and sectorial crisis.
- With regard to the Procampo card, the Bank continued creating strategic alliances with input suppliers by executing agreements with special terms and conditions.
- Financing for productive investment continued to be granted up to a 66-month term, at a fixed rate for the first 36 months and at a variable rate from installment 37 on.



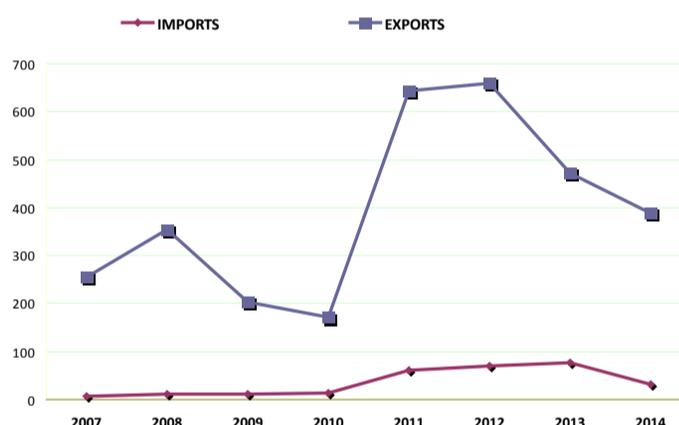
These coordinated strategies to achieve more ambitious goals were designed under certain protection mechanisms so as to avoid potential breach of contract. Therefore, in order to reduce credit risk, in 2014, the Bank developed rules related to guarantee funds, mainly FOGABA (traditional, semi-automatic and automatic) and mutual guarantee companies, such as *Garantizar*. At the same time, the Bank reviewed the agreements subscribed in previous years aimed at incorporating the guarantee to the Procampo/Pactar card transactions through an overdraft agreement and the expansion of the global guarantee up to \$1,500 million.

The approximate 40% increase in corporate loans was due to short-term financing, mainly discounted bills (46% y/y), loans for working capital (83% y/y) and agricultural activity. In the last case, the reformulation of the Procampo product caused an improved lending activity (140% y/y). In terms of annual figures, the Bank evidenced a sharp contracyclic performance in granting loans to the provincial productive sector.

Import and export credit facilities were granted for US\$419.1 million. This evidenced a 24% y/y drop resulting mainly from a decline in the retaking of export credit facilities by companies.

With respect to foreign trade, 475 export credit transactions were approved for US\$388.3 million (out of this amount, US\$364.4 million corresponded to 457 pre-export financing transactions). Under import credit financing, US\$31 million were granted through 611 transactions, out of which 590 were agreed in pesos for an amount equivalent to US\$28.3 million.

**Annual Evolution by Import and Export Credit Facilities**  
In millions of US\$



- **Agricultural Sector**

In 2014, the Bank continued providing financial assistance through a wide range of products to agricultural small and medium enterprises of the Province of Buenos Aires, in a joint effort with the Provincial Ministry of Agricultural Affairs and the National Ministry of Agriculture, Livestock and Fisheries.

Its most outstanding products included the Financing Program for the Cattle Raising Activity (investment and associated working capital), the Financing Program for the Dairy Sector (investment and working capital), the *Fuerza Productiva* Program - Tranche IV (investment for the acquisition of agricultural machinery manufactured in the Province of Buenos Aires), and the Working Capital Facility destined to finance the production of milk and meat. These programs and facilities offered subsidized rates making access to financing easier for producers. Moreover, more than 280 special agreements subscribed under the Procampo card with input suppliers allowed producers to benefit in many cases from 0% rates and up to 360-day terms. Mention should be made of the 2014/2015 special wheat campaign that envisaged a promotional payment scheme with terms not exceeding 270 days at a 0% interest rate.

The favorable turnover of this sector was evidenced by the placement of \$13,691 million, equivalent to a 51.1% y/y increase. Out of this amount, \$2,300 million was granted under programs and facilities with reduced and subsidized interest rates, such as:



- Financing Program for Cattle Raising: rate subsidized by the National Ministry of Agriculture, Livestock and Fisheries.
- Financing Program for the Dairy Sector: rate subsidized by the National Ministry of Agriculture, Livestock and Fisheries.
- Working Capital for the production of milk and meat: rate subsidized by the National Ministry of Agriculture, Livestock and Fisheries.
- Procampo Card: managed by the Agricultural Banking area, it recorded a 126.4% rise in consumption with respect to the previous year and granted financing for \$926 million at reduced rates.

This financial assistance was supplemented by other credit tools for development, working capital and investment, including: loans destined to summer crops, winter crops, retention of cereal grains, working capital, discount of third-party deferred payment checks, the Financing Program for companies involved in strategic value chains of the Province of Buenos Aires, investment financing and the lending facility for productive investment, the implementation of the facility for financing value added at origin subsidized by the National Ministry of Agriculture, Livestock and Fisheries, financial aid to farmers, specially to those affected by the adverse weather conditions prevailing in mid-2014 (excessive rainfall), extending maturities and granting assistance to producers under declared agricultural emergency conditions.

The delinquency rate for these facilities to the agricultural sector was just 0.47% of current loans.

Moreover, upon the extension of the Special Agreements entered into among the Bank, the Province and the National Ministry of Agriculture, Livestock and Fisheries, the remaining \$800 million may be used in 2015.

- **Industrial, Commercial and Services SMEs and MiSMEs**

During 2014, the SME Banking Management, through its 20 business officers, contacted over 1,500 companies, visited the premises of about 500 businesses and assigned credit ratings to more than 200 new SMEs.

In a context in which the Government, both national and provincial, encouraged that credit be redirected towards investment facilities, mainly for MiSMEs, the Bank has met the increasing demand from this sector.

The number of projects for new investments and expansion of installed capacity submitted under the *Fuerza Productiva* Program-Tranche IV (facility subsidized by the Provincial Ministry of Production, Science and Technology) totaled 131 for \$81.8 million, out of which 102 loans amounting to \$45 million were finally granted. Most of these loans were granted through the SME Banking Management, which was the link between the Ministry and the branch network of the Bank.

Under the Credit Facility for Productive Investment, a total amount of \$720 million was lent through 134 loans in line with the guidelines set forth by the BCRA.

With regard to loans destined to development and working capital for SMEs, on the occasion of its 192<sup>nd</sup> anniversary, the Bank launched a credit facility at a fixed interest rate to provide companies with competitive financial costs. More than \$850 million were lent through different credits with average amounts of \$2 million. An amount of over \$800 million was disbursed under other facilities for working capital.

Additionally, the Bank conducted special campaigns and developed several tools that promoted the discount of third-party deferred payment checks, a lending facility greatly demanded by SMEs. The annual discounted volume totaled \$5,200 million.

Measures were taken for the formation and training of new business officers, integrating a business management team exclusively devoted to serve the needs of portfolio companies, offering products and services in a personalized manner.

In 2014, the SME Banking Management participated in various working meetings held in different cities of the province of Buenos Aires, thus bringing the Bank closer to companies and strengthening value chains.



During the year, the Bank achieved all commercial and lending goals, thus complying with the pertinent action guidelines for the SME Banking area. After five years of uninterrupted growth, SME Banking consolidated a new business model and has become an important channel to assist small, medium and large enterprises that choose to operate with the Bank.

- **Corporate Banking**

In 2014, corporate customers continued demanding credits and the Bank lent \$11,704 million, 46.7% over the previous year. This amount accounted for more than 27% of total placements during the year.

This significant volume of transactions translated into an important growth in the portfolio balance at December 31, thus recording a new historic peak since the creation of the Corporate Banking Management, reaching \$7,000 million, 40% over 2013 and accounting for 29% of the total balance of the Bank's corporate segment. In the last two years, the annual growth of the portfolio stood at 40%.

Under the Personal Banking segment, in 2014, the Bank opened 6,381 salary accounts, issued 2,858 credit cards and granted loans for over \$20 million.

- **Micro-enterprises**

Through the creation of Provincia Microempresas S.A. in mid-2008, the Bank adhered to Central Bank's regulation on micro-credits aimed at considering the inclusion of actors of the economy and segments of the society that due to their informal conditions or unfavorable record regarding solvency and/or repayment capacity have restricted access to the credit and service banking system.

Since the launching of the microfinance program (PROME S.A.) in early 2009, a total of 100,657 loans for \$1,365.3 million has been granted. In 2014, 24,476 loans were granted for \$569.9 million, accounting for a 40.5% y/y rise. The program has already been implemented in 62 Bank's branches with the participation of 260 professionals especially trained to assist such segment.

By late In 2014, the company has gained a privileged position in the microcredit market. Moreover, the imbalance of the previous periods turned into a surplus in the year under analysis.

#### **2.1.2.1.2. Consumer Loans**

In the current year, non-prerequisite consumer loans expanded by almost 30% (over \$1,800 million in absolute terms). Advances on salary payments significantly increased, mainly due to the implementation of the electronic channel and improvements in the communication strategy. At the same time, loans to the beneficiaries of the ANSeS and the Social Security Institute of the Province of Buenos Aires (IPS, *for its Spanish acronym*) showed an uneven performance since they grew about 30% and just above 20%, respectively.

The loans granted through electronic channels expanded over 50% during the year as against mortgage housing loans that contracted more than 50%.

The growth in loans granted through electronic channels and advances on salary payments resulted in a 35% y/y improvement in consumer loans and a 23% y/y increase in financial assistance to families.

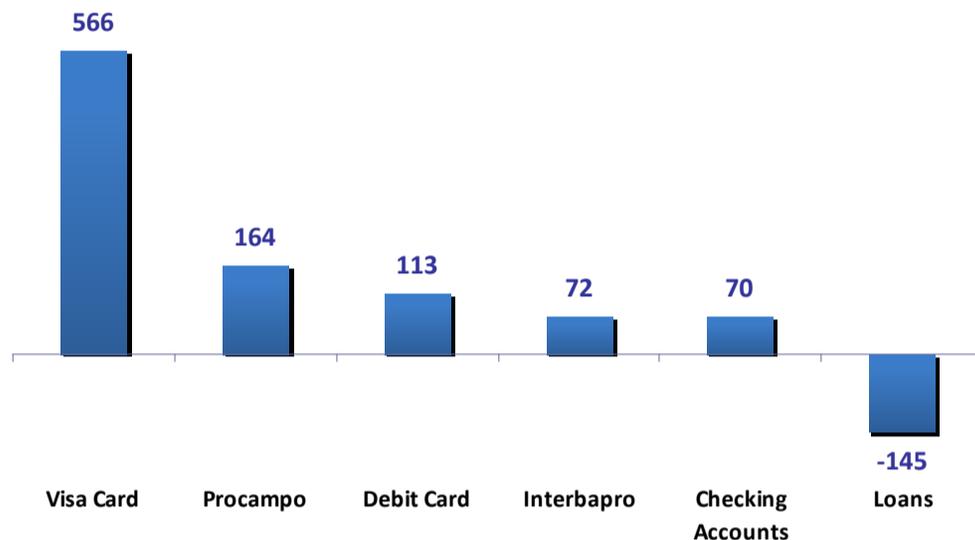
#### **2.1.2.2. Service Management and Results**

In 2014, income from services increased by \$970 million as against the figures of the previous year. Out of such amount, \$930 million derived from sales of products and services to the private sector, which rose 31% and 32%, respectively. Visa credit cards explained almost 60% of the total y/y increase and accounted for \$570 million. Income derived from the Procampo card grew by \$164 million. Debit cards and checking accounts significantly contributed to the expansion of income from services (\$180 million) as a consequence of an increase in fees and insurance costs in the case of debit cards, and a greater trade volume in the case of checking accounts. The improvement in the Interbapro system resulted from fee adjustments generating income for \$72 million.



Income from loan servicing was negative \$145 million, mainly due to the strict rules applied by the Central Bank in relation to fees and commissions, though placements improved their share in the financial system by 1 pp. In this sense, commissions on loans decreased, while certain loan facilities recorded slight increases.

**Income from Services in 2014**  
Year on year growth of the main items – in millions of \$



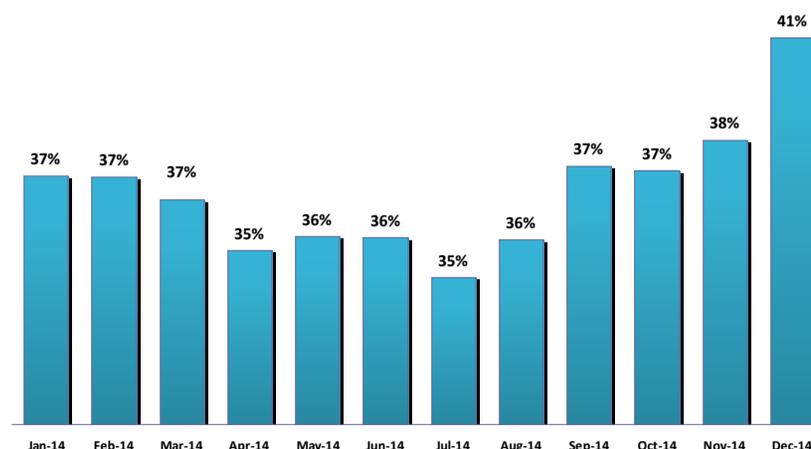
The transactions carried out by the Sao Paulo branch generated income from commissions for US\$60,916, and accounted for a 13.7% y/y rise. The sector that most contributed to income was Exports (59% or US\$35,918), followed by Imports (40% or US\$24,373) and financial income (1% or US\$624).

Income from commissions of the Montevideo branch (Provincia Financial House) totaled US\$163,456, an 11% increase resulting from a higher demand for trading transactions. The administration of third party securities generated US\$87,533, accounting for 54% of total commissions.

- **Electronic Means of Payment**

Credit card transactions kept on their upward trend in 2014 and became a commercial tool for multiple strategies. Visa credit card transactions showed a remarkable performance with a 40% y/y increase; transactions almost totaled 81.8 million and active accounts amounted to about 820,000.

**Purchases with Credit Cards**  
Year on year growth of the accumulated value during the last twelve months





The actions implemented to foster new transactions include:

- Telemarketing Prisma means of payment. It was used to offer direct debit services and additional cards.
- Increase in credit card spending limits. It was oriented to civil servants and private sector employees.
- Launching of the *Monedero* product. The “In Company” pilot project had a great impact and the Bank intends to stimulate its development.
- *Mi Visa* action helped enlarge and dynamize some business segments. Due to the positive results achieved, this tool will be used with more frequency.
- Credit cards for salary accounts were automatically pre-embossed. This mechanism for the issuance of credit cards proved to be effective to increase the number of cards in circulation.
- Amendments to Visa Business credit card spending limits. This measure improved consumption capacity since the total account spending limit can be used indistinctly by any of the cardholders.
- Marketing of *Visa Regalo*. It relates to the FIFA World Cup 2014. Consumption results were quickly spread and surpassed expectations.

Mention should be made of the rewards and customer loyalty programs, which allowed the Bank to strengthen its position in the System and compete with widely recognized private banking products. As a result of these actions, many improvements were made in terms of card activations and purchases, such as the *Millas Aerolíneas Plus* program that enabled the Bank to participate in the tourism segment.

At the same time, the agreements carried out with associated banks favorably impacted on the business and significantly expanded the Bank’s income from services. For this purpose, throughout 2014:

- Visa Platinum and Visa Signature were granted through Banco de la Pampa.
- The Platinum product was offered through Caja Popular de Ahorros de Tucumán.
- Visa Gold was marketed through Banco de Neuquén.
- Visa Agro, Visa Signature and Visa Platinum were offered through Banco de Corrientes.
- High quality products were marketed through Banco de Chaco.
- To complement the *Patagonia 365* product, about 5,000 Visa credit cards were activated through Banco de Chubut. The final migration would total 50,000 cards.

- **Banca Internet Provincia (BIP)**

Apart from traditional transactions (account and credit card statements, inquiries, payments and transfers), the BIP platform began to offer the following:

- Recharge of cell phones and SUBE (unified electronic ticket system) cards.
- Digital fixed-term deposits at pre-agreed interest rates.
- Loans up to \$10,000.
- Opening of custody accounts, purchase of bonds and shares, and mutual fund investments.
- Requests to the Bank.

These requests are a dynamic and functional tool since they allow customers to channel the purchase of products and services in a remote way, thus avoiding the first visit to the Bank. Other services provided in 2014 include:

- Purchase of foreign currency for saving purposes.
- Subscription to the *Millas Aerolíneas Plus* program.
- Granting of non-prerequisite consumer loans up to \$100,000 to civil servants.

The Bank continued migrating users from BaproEmpres@ towards the new BIP Empresas platform. Such migration would finish in early 2015. For large companies and public and private bodies who make transactions under the same Taxpayer Registration Code number in different Business Units, a project known as BIP Corporativo was developed considering the specific operative needs of such entities. Under the BIP Empresas functionality, the Bank offered:



- Information on consolidated position.
- On line inquiries on account movements and transactions.
- Immediate transfers to third parties.
- Opening of credit accounts (simple and suppliers payment agreements).
- Automatic opening of savings accounts (salary payment agreements).
- Non pre-requisite fixed term deposit.
- Purchase/sale of bonds and shares, mutual funds subscription and redemption.
- Digital certificate as a second factor for authentication purposes.

This means an improvement over the previous platform provided by Red Link. Customers have access to new functions and the main transactions will be available for execution from Mobile Banking. Since its implementation in November 2014, the Bank's mobile banking platform recorded about 20,000 users at the end of the year. It offers a wide variety of services including the possibility of making transactions and inquiries, and is one of the best developed platforms in the market. The Commercial Policy and Investment Unit applications support this trend by offering banking services through this channel. In the first months of 2015, the Bank's technological offer will include services for agricultural sector customers through the incorporation of the Procampo application. Hence, the quantitative and qualitative expansion of the BIP mobile platform will continue improving business development.

- **Locations**

During 2014, the Bank expanded its automatic teller machines (ATMs) network and, at the same time, carried out an assessment of the number of transactions by location. This helped to appraise the present situation and the potential prospects of evolution, considering the growth possibilities according to customer's needs.

After analyzing costs and demand by location, the ATMs localization was arranged according to income and effective demand requirements. The access to data segregated by income and costs and by geographic area was essential for business adjustment and further projections in inter-temporal terms. There follows the achievements obtained after coordinating potential and actual supply and demand:

- The detection of locations characterized by ATMs low demand and high costs, and vice versa. This enabled to make progress in the evaluation and relocation process.
- The creation of an "*uptime commission*" composed of different sectors, which is responsible for designing strategies to optimize the operational network capacity. Intersectorial actions showed the need for implementing ATMs exclusively for customers in 156 branches where the number of beneficiaries of social plans was lower. This process involved 194 terminals.

With respect to the "Summer Campaign", the Bank identified places where the institutional presence had to be strengthened through incorporations or relocations of ATMs. For this purpose, five mobile banking units were acquired.

Real property was acquired at the cities of Gonnet, Derqui, Bahía Blanca, Guernica and Nueva Pompeya for the development of business units' activities. At the same time, the opening of a branch at the city of Villa Luzuriaga became feasible. A new banking service channel, "Espacio Provincia", was designed to satisfy the needs of the SMEs located in industrial parks. The service will be offered taking into account the nature and prospects of each location. In 2015, new customer service points are planned to be opened at Parque Comirsa, Canning and General Rodríguez, among others.

With respect to vaults, the Bank went on working towards objectives linked to improvements in services, and adapting the infrastructure for their diversification and expansion in the Business Units located in the cities of Pehuajó, General Rodríguez, Mercedes, Trenque Lauquen, Daireaux, Azul, Rauch, Luján and the Legal Department in the city of Olavarría.



- **Foreign Trade**

Throughout 2014 and within a framework restricted by current regulations, three goals were set:

- Consolidating the Bank's position in the Province of Buenos Aires's foreign trade.
- Enlarging its share in the financial system.
- Increasing Income from Services.

In order to achieve such goals, the Bank's management focused on customer and operating processes, including:

- Actions oriented to attract customers and build customer loyalty.
- Training in foreign trade for Business Units.
- Operational System: a foreign trade management software, which will replace the current system, was acquired in September.

All these actions derived in a 34.5% y/y increase in the "Income from Service" caption at the end of the fiscal year.

### **2.1.3. Credit Risk Policy**

In accordance with the purpose and roles of the Credit Assessment Management, the credit management was based on pre-assessment processes carried out by integrated areas. This helped speed up the response time of overall credit analysis as well as the constant identification and monitoring of the loan portfolio quality, taking into account not only the commercial strategy but also the risk levels accepted by the Bank.

Upon analyzing 10,962 cases, the amount disbursed for commercial loans totaled \$33,344 million, representing a 44% annual increase. The Credit Facility for Productive Investment stood out, accounting for 21% of the loans granted during the year.

With respect to loans to individuals during 2014, the Bank granted \$9,608 million (15% over 2013) resulting from 424,971 applications analyzed by the Scoring system.

### **2.1.4. Loan Recovery Policy**

In 2014, the Bank actively pursued its out-of-court recovery program for loans exceeding their early delinquency stage. For the purpose of increasing the number of regularizations, actions involved in every phase of loan recovery management were intensified.

Different loan recovery programs remained in place. Priority was given to the settlement of debts and, secondarily, to their refinancing in the shortest possible term.

Under the out-of-court recovery program for loans exceeding their early delinquency period, 12,837 cases were settled during the year for a total amount of \$324 million.

In the case of mortgage debtors, the procedure was in line with provincial legislation providing for the suspension of foreclosures on debts related to sole family houses. Without overlooking the Bank's privileges and legally enforceable rights, repayment conditions of highly delinquent loans were eased in order to avoid foreclosure sales.

### **2.1.5. Relationship with the Provincial Public Sector Policy**

In 2014, the Bank's actions continued addressing and satisfying the operational needs of the Buenos Aires Public Administration.

The Bank strengthened its business relationship with provincial municipalities with the aim of reducing treasury transactions and migrating collection and payment services to electronic channels. Such relationship was assessed through a new round of meetings held in the interior of the province and customized visits to districts of the Greater Buenos Aires. Simultaneously, the Bank entered into 79 new agreements to implement new collection and payment services channels.



Likewise, the first financing process for the acquisition of houses through the *Buenos Aires Hogar* Plan was fulfilled. The works on construction of 20 housing units carried out by the Roque Perez Municipality were completed and financed through the Fondo Fiduciario para el Desarrollo del Plan de Infraestructura Provincial (PROFIDE - Trust Fund for the Development of the Provincial Infrastructure Plan). Thus, twenty new families had access to their own home. The Bank, financing the acquisition through a specific mortgage loan facility, and the *Instituto de la Vivienda de la Provincia de Buenos Aires* (Province of Buenos Aires housing institute), subsidizing the interest rates to loan beneficiaries, had an essential role. The loan monthly installment is similar to the average rental price in the province of Buenos Aires. This Program is under development in other municipalities of the Province. Some of them have begun the works and other municipalities have taken the first administrative steps.

During 2014, the Bank went on working together with entities created under the provincial Constitution to incorporate provincial public agencies' accounts in the Treasury Single Account (TSA), thus improving the management of funds and adjusting the Petty Cash system.

The Bank continued with the migration process of transactions involving payments from the main provincial entities to electronic channels, in order to eliminate the check payment system and reduce administrative costs. One of the most significant entities is the *Dirección General de Cultura y Educación* (Directorate General of Culture and Education) that uses banking services for the payment of substitute teachers' salaries.

Further progress was made on the arrangement of agreements for the implementation of alternative collection and payment channels with the public and private sectors. The maintenance of collection services at cash desks was subject to the condition of signing up for *Link Pagos* services (payments through ATMs and the Internet). The Bank entered into 17 and 41 new agreements with the public and private sectors, respectively. The Bank strengthened the digital payment service by credits in accounts and reloadable cards in an attempt to reduce the use of checks.

This action is still aimed at reducing crowd flow to treasury offices in order to lighten the operative workload of Business Units so as to provide better Bank-wide customer services. Jointly with the Information Systems Management, a new Payment System is being developed to include payment of wages/salaries, benefits, fees and payments to suppliers. This system will speed up implementation and commercialization times while favoring the provision of services according to the market requirements and the Bank's needs. Likewise, the operating process of the *Bapro Depósitos* service (bank deposits) was updated to offer this service to companies and improve collection account balances. Significant steps towards bancarization and adjustments to systemic and operating controls have been made with respect to payments of retirement and pension benefits, family allowances and social plans so as to provide an efficient service and reduce treasury transactions. Thus, out of 1,109,038 beneficiaries of retirements, pensions and family allowances, 1,033,385 beneficiaries (93%) already have an account and a debit card to collect their benefits, and 753,223 beneficiaries of social plans (97%) have migrated to alternative collection channels through the use of the ATMs network or reloadable cards to purchase in food stores.

The Bank has incorporated a monitoring, control and collection process related to subsidies on loan facilities agreed with the Provincial Administration for SMEs in order to comply with State policies.

#### **2.1.6. Budgetary Policy**

The Bank's administrative expenses were determined according to policies designed to support provincial development through affordable credit solutions and dynamic financial services. The focus has also been on a proactive approach and service quality to families, agricultural producers, micro-entrepreneurs and small and medium enterprises of the Province of Buenos Aires in line with the productive, social and development policies of the Provincial Administration tending to achieve higher bancarization levels by people and economic activities.

Within this framework, the Expenditure and Revenue Budget was a perfect tool for exercising a strict control of expenses, thus optimizing their incurrence and making the use of resources more efficient. This helped ensure the Bank's self-financing and capitalization.

Personnel-related expenditure was budgeted on the basis of 10,597 employees, which has been approved by the Province of Buenos Aires's Legislature.

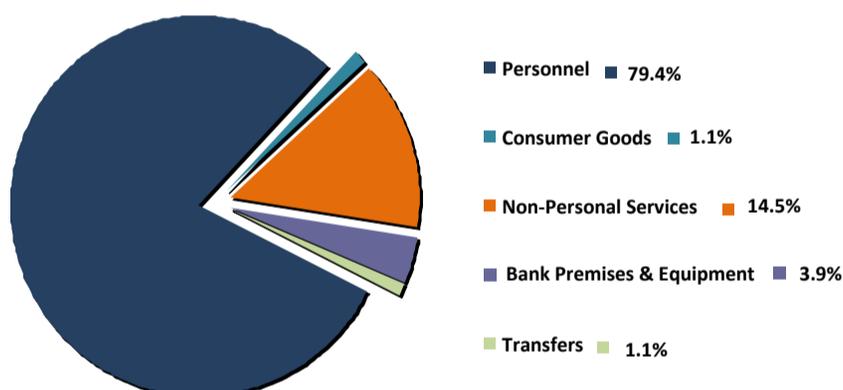
Investment decisions were oriented towards the expansion and improvement of the Bank's branches. These actions were also aimed at increasing electronic banking penetration, implementing strategic plans destined to refurbish and maintain buildings, preserve premises, furniture and vehicles and modernize air conditioning, central heating and vertical transportation systems. The Bank also continued the enhancement of its electronic channel solutions, particularly Internet and Mobile Banking, and the development of tools for business intelligence support. Likewise, the Bank took actions to upgrade the computer equipment of its Head Office and Branches and update its LAN network.

Other expenses were incurred for consumer goods, such as stationery, IT and office supplies, fuels and lubricants for the motor vehicle fleet, and other items necessary for the Bank's Works Plan. Non-personal services comprise basic electric energy and telephone services, post office, rental of premises and machinery, and other services such as armored transportation, security, cleaning, maintenance and repair of buildings and premises, sanitary services and software maintenance.

The Bank's Expenditure for the 2014 fiscal year broke down as follows: Personnel Expenses \$6,566.25 million; Consumer Goods, \$93.16 million; Non-personal Services, \$1,241.33 million; Bank Premises and Equipment, \$319.02 million; and Transfers, \$90.70 million. This was balanced by Revenue estimates consisting of Income from Financial Transactions, Other, Foreign Branches Services and Transactions for an amount of \$8,310.46 million.

In the fiscal year, total expenditure accounted for 99.5% of the budgeted figures. Non-personal services recorded the highest deviation between planned and actual expenditure due to a smaller investment in advertising (\$36.38 million).

**Breakdown of Expenditure – Year 2014**



### 2.1.7. Human Resources Policy

The Bank has carried out appropriate staff analysis to identify current and future needs within its different sectors. Within this framework and jointly with the Operations and Branch Network Managements, business units were staffed with qualified management officers in the different sectors (Marketing, Back Office and Treasury). Therefore, the Bank's goal to fill all managerial position in branches was fully achieved.

The Bank kept on fostering the development of staff potential through 21,148 actions on training. Under the Staff Development Model, the Bank organized three Level 1, three Level 2 and two Level 3 workshops, attended by 610 employees from branches and central areas.

The use of the Campus Provincia e-learning platform continued expanding. This platform has received 79,152 visits, and 21,419 self-managed tests were passed regarding induction, banking career and other targeted courses.

The Bank encouraged the registering of candidates for posts as Branch Operations Deputy Manager. For that purpose, it designed together with the authorities of the UNTreF (national public university) a specific training, which was attended by 54 employees organized in two groups.

In the September-November period a Managerial Development Program was offered to Business Units' managers. The training, focused on decision-making and business tools, was developed in two



consecutive days and in every regional center, and was attended by all the managers of the relevant center.

A total of 90 officers attended Postgraduate courses and Executive Programs: 10 were trained at the *Universidad CAECE*; 16 at the *Instituto Argentino de Ejecutivos de Finanzas (IAEF)*; 2 at the *Universidad de Belgrano*; 6 at the *Instituto Tecnológico de Buenos Aires (ITBA)*; 3 at the *Instituto Universitario ESEADE*; 18 at the *Universidad Austral – IAE*; 7 at the *Universidad Torcuato Di Tella (UTDT)*; 7 at the *Universidad Católica Argentina (UCA)*; 4 at the *Universidad de Buenos Aires (UBA)*; 4 at the *Universidad Tecnológica Nacional (UTN)*; 8 at the *Universidad de San Andrés (UdeSA)*; 2 at the *Universidad Nacional de La Plata (UNLP)* and 3 at the *Universidad Nacional de Rosario (UNR)* and *Rosario Futures Exchange (ROFEX)*.

The Bank formulated an effective communication policy aimed at consolidating the institutional image, motivating employees and reducing the effects of informal contact. For that purpose, internal communications were improved through the implementation of 214 intranet announcements, 899 e-mail communications and 12 issues of the “El Pulso del Provincia” e-newsletter.

Since the introduction of the “GPs Mi Espacio” virtual space, the database was gradually consolidated, significantly improving the information included in the employee's folders and incorporating a new section denominated “Acciones Solidarias”, where solidarity actions are reported (donations, collections, volunteer works, charity events and solidarity assistance). The Corporate Communication Unit together with TECHO - Un Techo para mi País (*a nonprofit organization*) performed activities that mobilized almost 100 employees of the Bank to construct houses for families in extreme poverty.

The Bank kept on organizing the “Construyendo una Nueva Etapa” monthly workshop to facilitate the necessary support to those employees who retire from the Institution. A total of 70 employees actively participated in 10 workshops.

The Bank, through the Health Area, held meetings with relatives and co-workers of the 11 employees who died in 2014.

Labor Inclusion Process for People with Disabilities continued with the intention of achieving the full inclusion of the 14 new employees who joined the Bank under Law 10592. The actions of this process include functional capacity assessment, introduction to the work team and regular audits on the progress of the inclusion process. Likewise, 26 offices were visited in order to evaluate the return to work of those employees controlled by Health departments.

Within the framework of the “Pro-Optimización del Clima Laboral” program for encouraging a pleasant labor environment, the Bank’s professionals visited 16 offices to mitigate interpersonal conflicts affecting employees' performance and health.

The Bank continued implementing medical examinations to detect labor risk factors. During 2014, a total of 185 employees (from the Automobile Park at the Guanahani and La Plata buildings, Values Custody and Counting, Head Office ATMs and Help Desk sectors, and Board of Directors' Chauffeurs) were examined and some of them are still under medical-labor follow-up.

A total of 507 employees of 17 branches received training in CPR (Cardiopulmonary Resuscitation).

The role of Referent Advisor on Health issues was created, and each Regional Center has a health professional who will interact to deal with any daily problem related to health, behavior or performance. Simultaneously, they will work closely with Assessment and Requirements administrative advisors. The Regional Centers' heads had an active participation in the twelve meetings held with the Human Resources Management.

#### **2.1.8. IT Policy**

In order to streamline the allocation of resources so as to render enhanced customer services and make transactions more secure, new developments, implementations and improvements were made in 2014 through a set of IT tools. Under the 2014 IT Operative Plan, the Bank carried out the following projects:

- Business Data Base
- Own Mobile Banking platform



- BIP Loans
- Customer Relationship Management (CRM) - Claims
- Advances on Wage/Salary Payments
- Prode Mundial BIP (world cup football pools)
- New Functions of the System for Managing Default Loans
- System for Bankruptcy Proceedings
- Introduction of Improvements in CADAC Transactions
- Intranet Reengineering
- Integral Technology Continuity Plan
- BIP - Corporate
- Customer Flow Management
- Multichannel Strategy
- Printing of Debit Cards in Branches
- Corporate Scoring
- New Foreign Trade System
- Suite of Products
- Reengineering of Individual and Corporate Credit Cards
- Payment to Suppliers and Wage/Salary Payment System
- New JUREX System
- Reduction of Manual Entries – TRX 9000
- Accounting General Menu
- Means of Payment Accounting Reconciliation – MASTER Portfolio
- Upgrading and Updating of the WAN Network Links
- Updating of Central Nodes and Branch LAN Networks
- Unified Communications Solution
- Integral Data Back-up Solution
- Updating and Improvement of the Mainframe Platform
- Expansion of the Processing Capacity for Open Systems
- Information Systems Management's Integral Governance and Management Solution

#### **2.1.9. Risk Management Policy**

Throughout 2014, the Bank continued implementing the regulations issued by the BCRA related to risk management. In April, the Bank submitted to the BCRA the first presentation of its Annual Report on Capital Self-Assessment for 2013. This report shows balance sheet positions and estimates arising from the capital planning process for the following two-year period. The primary goal pursued by the Bank was the development of an internal, comprehensive and global process to assess its capital adequacy based on its risk profile, and a proper strategy to maintain its capital levels considering external factors, such as the impact of the economic cycle and scenario.

The Risk Administration Management took different measures to contribute to the Bank's administration, and to examine regulatory aspects related to the activities carried out by the Bank together with Grupo Provincia, such as: preparation of reports including the subsequent risk impact when new products and/or services are launched or when the existing ones are modified; review of risk management frameworks; adjustment to, and review of, management and contingency limit guidelines for the most significant risks; appraisal and follow-up of early warning risk indicators; elaboration and approval of different methodological documents for conducting a proper management; and implementation of the first modules of a new operational risk management application.

#### **2.1.10. Grupo Banco Provincia**

Grupo Banco Provincia S.A. (Grupo Provincia or GP) is an organization majority controlled by Banco de la Provincia de Buenos Aires (the Bank or BPBA) in charge of managing a group of companies aligned through synergy generation and innovation in an efficient and profitable manner.

Its purpose is to offer high quality and accessible non-banking financial services and other supplementary financial services and support for the development of families, entrepreneurs, companies, and local governments, maintaining proper management efficiency levels, strengthening



the influence of GP, the Bank and the Provincial Government within the territory through the creation and development of special innovation and transformation projects that may promote social inclusion.

GP takes an active role in the generation and design of special innovation and transformation projects with a high impact on the province of Buenos Aires aimed at promoting social inclusion and appropriate management efficiency levels. Towards the end of 2012 and during 2013 and 2014, some measures were adopted focused on the development and enhancement of an IT platform for GP, the Bank and the Province. This process involved the re-launching of the business platform of Bapro Medios de Pago S.A. positioning itself as an agent of technological modernization for the province and its people, taking advantage of the inclusive feature of technology.

At December 31, 2014, GP kept permanent equity interests in the following 13 companies, out of which 10 are controlled by GP.

Company	GP Equity Interests		Total
	Direct	Indirect	
<b>Insurance</b>			
Provincia Seguros S.A.	60.000%	0.000%	60.000%
Provincia Aseguradora de Riesgos del Trabajo S.A.	98.630%	0.822%	99.452%
Provincia Seguros de Vida S.A.	45.000%	9.000%	54.000%
Internacional Compañía de Seguros de Vida S.A.	37.769%	1.806%	39.575%
<b>Services</b>			
Provincia Microempresas S.A.	5.000%	0.000%	5.000%
Buenos Aires Desarrollo S.A.	50.000%	0.000%	50.000%
Provincia Servicios de Salud S.A. (*)	96.375%	3.620%	99.995%
<b>Finance</b>			
Provincia Leasing S.A.	97.000%	2.981%	99.981%
Bapro Medios de Pago S.A.	97.000%	2.996%	99.996%
Bapro Mandatos y Negocios S.A.	97.000%	2.850%	99.850%
<b>Brokerage</b>			
Provincia Bursátil S.A. – Brokerage House	95.000%	0.000%	95.000%
Mercado Regional de Capitales S.A. (*)	95.680%	0.000%	95.680%
Provinfondos S.A. – Mutual Fund Managing Company	0.000%	85.500%	85.500%

(\*) Due to the lack of business since December 2011, a process of liquidation of Provincia Servicios de Salud S.A. has been initiated and is still pending.

(\*) Mercado Regional de Capitales S.A. is in a process of liquidation.

#### • Provincia Seguros S.A.- Property Insurance

The Company, which participates in the market of General Insurance (property and group life insurance), recorded operations for \$3,181 million during 2014. In the fiscal year, the Company increased its production and promoted an “Action Plan”, the strategic purposes of which are based on: (i) a National Sales Network Relationship Plan; (ii) a Territorial Expansion Plan; (iii) a Business Network Loyalty Plan; (iv) Actions addressed to Internal and External Customers; and (v) the Development of New Products and Services attracting new customers who owned traditional and luxury vehicles covered by fully comprehensive third party and all-risk car insurances.

In line with the purpose of improving the technical result and following the guidelines provided for by Resolution No. 32080 and other rules issued by the National Insurance Superintendency (SSN, for its Spanish acronym), the Company worked on operational, regulatory and technical aspects, such as the implementation of the web platform, agro-meteorological information derived from satellite data for hail insurance coverage; rates and conditions adjustments related to several types of insurance policies, and adjustments of amounts insured for different products. Likewise, technical and contractual conditions associated with Civil Liability and Automobile Insurances were amended according to the guidelines stipulated by the SSN.

With respect to the loss ratio and with the aim of complying with the Mandatory Mediations program implemented in the province of Buenos Aires, the Company offered an “express” procedure for mediation services and created the Claims Control Department in different offices. Mentioned should



be made that the hailstorm on June 23, 2014 caused the submission of more than 1450 automobiles claims to the Company.

Throughout 2014, the Company implemented communications strategies in line with the Bank's policies and GP's strategic goals, working in synergy with both of them. Because of the value that this relationship offers to the brand, Provincia Seguros kept reinforcing its brand and corporate image, linking them to the Government of the Province of Buenos Aires. In order to reach the mentioned goals, the Company carried out trade promotion actions within the province of Buenos Aires and in the interior of the country. Likewise, other actions related to Corporate Social Responsibility were carried out.

- **Provincia ART S.A. - Workers' Compensation Insurance**

Provincia ART S.A. is a company that provides workers' compensation insurance according to Law No. 24557/95.

Through Order No. 2038/12, the National Executive Branch enacted Law No. 26773 on "Rules on injuries derived from accidents at work and occupational diseases", which amends Labor Risk Law (LRL). This regulation, providing for compensation in cash and in kind, came into force on October 26, 2012.

The new LRL unsuccessfully tried to minimize the institution of legal proceedings. In the last year, legal actions brought against the insurance market and Provincia ART continued increasing due to a sustained growth in the portfolio during the last three years.

On December 4, 2013, the SSN, in virtue of the assessment of the Company's technical ratios, required such Company to submit a regularization and reorganization plan related to coverage and minimum capital requirements. The plan had to include, without limitation, administrative, economic, financial, commercial and any kind of measures for the regularization of deficits, a capitalization program stating dates and amounts of the contributions to be made, and future actions aimed at securing surplus in both technical ratios. The Company submitted the required information on April 22, 2014, and the supervisory authority approved the Regularization Plan on May 22, 2014.

Thus, in 2014, the Company's actions were oriented to achieve the goals stated in the Regularization Plan. The goals of prices and rates adjustments were successfully attained and the portfolio profitability increased, maintaining the portfolio's positioning. Within the workers' compensation insurance market, it ranked 3<sup>rd</sup> at the national level and 1<sup>st</sup> in the Province of Buenos Aires.

Moreover, significant actions were taken in order to settle delinquent accounts.

During 2014, the Company issued premiums and surcharges for \$5,171 million, a 74% increase with respect to the previous year, and the investment portfolio recorded a 123% y/y growth (\$3,136 million). In 2014, net income was significantly higher than in 2013, recording a positive balance of \$204 million.

At December 31, 2014, the Company had 1.3 million policyholders, 2.5% over 2013.

- **Provincia Seguros de Vida S.A.- Life Insurance**

The Company is devoted to the production of individual life insurance targeted to middle income consumers highly prone to protection and saving. Its retail shareholder is CNP Assurances Brasil Holding Ltda. with 40% of the capital stock. Provincia Seguros de Vida S.A. operates under the insurance banking marketing model in collaboration with the Bank. It developed other sales channels in the province of Buenos Aires and the interior of the country. Thus, the Company expanded its geographical coverage.

Throughout 2014, its production amounted to \$132,6 million, 42% over 2013. Policyholders totaled 354,000, a 16% rise as against the previous year and it remained positioned as the leading insurance company in terms of insured.

At December 2014, and in terms of life insurance policies, the Company ranked 7<sup>th</sup>, with a 4.01% market share. In the individual life insurance market, Provincia Vida placed 5<sup>th</sup> in the ranking.



- **Internacional Seguros de Vida Previsional S.A. – Life and Disability Insurance**

Due to the enactment of Law No. 26222 and its related regulations abolishing the obligation of the Retirement and Pension Fund Administrators (*AFJPs, for its Spanish acronym*) to contract a life and disability insurance, since January 1, 2008, the Company had to discontinue its production and keeps administrating pre-existing policies. Therefore, no new policies were issued and its operations became limited to the collection of premiums of insurance policies effective at June 30, 2007 and to the payment of the relevant claims. This situation significantly reduced the Company's managed investment portfolio.

Consequently, the Company adjusted its management structure for the best combination of expenses and income. In 2014, it recorded profits for \$51.8 million, supported by a diversified investment policy and optimization of the risk/return ratio. The Company paid GP and Provincia Seguros dividends for \$20.77 million and \$1.66 million, respectively, charged against the income/(loss) of the 2014 and 2013 fiscal years.

- **Provincia Leasing S.A. – Leasing Transactions**

Grupo Provincia participates in the market of leasing transactions through Provincia Leasing S.A., whose primary line of business is to provide leases with purchase option of personal or real property, acquired or owned by the Company for leasing purposes.

In 2014, and despite strong market competitiveness, the commercial actions developed by the Company helped it exceed its business goal and achieve a considerable level of transactions (127%). Once again, those actions were based on strengthening and maximizing certain aspects such as the support provided by the Bank and the continuous assistance to the public sector. Specific commercial actions were developed to give a strong boost to the “Personnel” and “Active” financing facilities so as to attract and provide assistance to this market segment. In the pursuit of said goals, talks were held at different branches, industrial parks and cities of the province of Buenos Aires. Likewise, the Company had an active participation in numerous fairs and events, interacting with potential customers and suppliers.

Consistent with the “leasing” promotion and training talks, meetings were held with customers selected by the Bank’s managers, centers heads and managerial assistants, and jointly actions were taken with other companies of Grupo Provincia.

Provincia Leasing S.A. has played a leading role in the financial market for over 15 years, ranking among the top ten leasing providers and achieving a leading position in the public sector due to its ongoing support to municipalities and provincial agencies. The private sector customer portfolio is mainly distributed in the province of Buenos Aires and the rest in the national territory. Provincia Leasing has offered, and continues offering, an ideal financial instrument for the technological updating and modernization of SMEs engaged in different productive activities, through the equipment or installation of machinery or industrial plants for both agricultural and industrial production, without overlooking the various service-providing sectors. Such instrument favors the financing of industrial equipment, vehicles, road and construction machinery and the acquisition of IT and communication high technology.

Constant innovation in the launching of new products, such as the new “Personnel”, “Large Companies” and “Active” leasing facilities, will allow incorporating new market segments in the Company's customer portfolio.

- **Bapro Mandatos y Negocios S.A. – Fiduciary Activities**

Bapro Mandatos y Negocios S.A. is a company specialized in the structuring and management of trusts, with an active participation in the market. At December 2014, assets held in trust by the Company amounted to \$4,418 million.

During fiscal 2014, and in line with the business guidelines set forth by the Board of Directors, the Company consolidated its relationship with municipal and provincial public agencies for which trusts have proved to be a valuable management tool.



Thus, jointly with the Provincial Public Service Secretariat and the electricity power distributors (EDEA, EDES, EDEN and EDELAP), four trust agreements were concluded for the execution of repair and maintenance works in the electricity distribution system of each concession area. In the same period, a trust agreement was entered into with the Provincial Infrastructure Ministry under the provisions of the Habitat Law, a useful tool for the solution of housing problems in the province of Buenos Aires.

At a municipal level, the implementation of the CTM Trust, jointly with the Moreno Municipality, stands out. It is intended to manage the Connection Hub close to the Moreno station of the Sarmiento Railway.

Like in previous years, the Company did not resort to external financing and carried out its activities with own funds. The investment of financial excesses became an additional funding source which accounted for 6.25% of total income in 2014.

Mention should also be made of the actions taken by the Company to deal with certain trust agreements; those actions are expected to continue in 2015.

- **Bapro Medios de Pago S.A. - Collection Services and Call Center**

Bapro Medios de Pago S.A. (Provincia Net) offers a wide range of services to the public and private sectors through the following business segments:

- Technological Projects
- Non-banking Collection System
- Call Center

- I. Technological Projects**

This business unit has led the Company to post \$150 million gross profits as the result of the agreement entered into between Bapro Medios de Pago S.A. and the Provincial Institute of Lotteries and Casinos providing for the rendering of integration, administration and operational services in support of a transactional system for online, real-time data capture available either through fixed and/or mobile computer terminals. Such system allows the processing and administration of betting information and the management of networks involving gaming activities controlled by the Provincial Institute and/or carried out in other jurisdictions under its approval. Additionally, Provincia Net has incorporated technological areas in its organizational structure to respond effectively to existing needs, thus including reliability, agility and convenience levels for a quick and efficient implementation of each project supported by the Company.

Provincia Net has provided services to some companies of Grupo Provincia (Provincia Seguros and Provincia Leasing), stressing the synergy between them. Provincia NET works with different provincial government areas and municipalities to promote technological development projects. During fiscal 2014, the Company collaborated with the Ministry of Health in developing a vaccination schedule for mobile devices and, with the Directorate General of Culture and Education, in developing a new IT System for Educational Model Integration (SIGME, *for its Spanish acronym*). The Company also provides on-line collection services to the Provincial Revenue Service (ARBA, *for its Spanish acronym*). Almost 130,000 payments had been made by December 2014, and such trend is going up. At a municipal level, a payment gateway service was implemented for municipal duties and levies as well as for the payment of traffic fines.

With respect to the private sector, Provincia NET offers mobile app solutions for cell phones and tablets as well as notification and warning services through different channels (web, sms, e-mail and push). It also provides website and software developments, virtual offices, web payment buttons, cloud services, big data, business collaboration and social networks.

The Company has a Data Processing Center consisting of 225m<sup>2</sup>, 124 workstations and 20 gated offices and offers housing and hosting services to customers' servers. The Data Processing Center has been awarded TIER II Certification by Uptime Institute and the TIER III certification award is in process.

Among the new products launched by the Company in 2014, the following are noteworthy: NET LIVE TV, and the live audio and video *streaming on line* system for broadcasting different events.



The main strategic guidelines of the technological business identify the need to develop and implement coordination mechanisms to favor the building of relationships with international players.

## **II. Non-banking Collection System**

Provincia NET has managed to consolidate as a referent in the market with a wide distribution throughout the province of Buenos Aires. It has also expanded its presence in the interior of the country so as to offer nation-wide services. Thus, the Company has consolidated its growth by establishing its presence in 15 provinces; in this sense, the central region (Córdoba, Santa Fe, La Pampa and Entre Ríos) stands out accounting for 58% of total collection.

In fiscal 2014, the rate renegotiation plan resulted in a 22% rise in income while average billing hiked 26.2% over 2013.

Bapro Medios de Pagos S.A., the only Company authorized to carry out collection services for the Provincial Revenue Service, maximized its efforts to deal with the public sector by entering into several agreements with national entities which allowed the collection -by different means- of identity document and passport fees, reciprocity fees (National Immigration Office) and driving license fees, and the recharge of SUBE cards in the Buenos Aires metropolitan area.

In 2014, Provincia NET handled 80,915,476 transactions including: traditional collection services, debit card payments, payments without bills and electronic/web payments.

With respect to the Service Center and following an initiative jointly developed with Banco de la Provincia de Buenos Aires, the activities outlined in the strategic plan to open agencies in strategic locations of the province have already been started. Such initiative is intended to bring services closer to the people of the province of Buenos Aires.

During 2014, \$231 million was collected on account of provincial taxes, 65% over 2013 figures.

## **III. Call Center**

Call Center's billing totaled \$52,440,762, accounting for a 72% increase over the previous year.

Such billing increase was also the result of the technological upgrading process which allowed the rendering of integral customer services through different channels such as: e-mail, sms, chats, social networks and IP communications.

To strengthen the synergy among Grupo Provincia companies, the Company has provided solutions to Provincia Seguros, Provincia ART and Provincia Leasing as well as to Provincia Microempresas and Banco de la Provincia de Buenos Aires.

Services provided by the Call Center have been awarded ISO certifications.

At the end of fiscal 2014, Bapro Medios de Pago S.A. posted a net profit of \$2,560,898.

### **• Buenos Aires Desarrollo S.A.**

Banco de la Provincia de Buenos Aires also has an equity interest in Buenos Aires Desarrollo S.A. The purpose of this Company is to provide assistance to provincial SMEs for investment projects involving extension/relocation of production plants within the provincial territory, purchase of capital goods and compliance with environmental laws, as well as for technological innovation projects aimed at improving the productive activity of companies with the purpose of upgrading value chains and developing suppliers' activities.

During 2014, BA Desarrollo S.A. consolidated a dynamic participation with companies of Grupo Provincia, providing macroeconomic advisory services through its own staff of economists and expanding risk analysis so as to cover individuals and companies seeking financing through Provincia Leasing S.A.



The Company continued performing its role as trader of products and services of Provincia Seguros, Provincia ART, Provincia Leasing, Provincia Vida and Provincia Pagos, coordinating and managing the commercial offices located in the interior of the country, strengthening the institutional image and sale points and defining business policies. Over the course of 2014, BA Desarrollo has opened representative offices in Trelew, La Rioja and Catamarca and expects to forward its strategic expansion plan in 2015.

- **Provincia Bursátil S.A. - Brokerage House**

The Company's main activity is to perform brokerage transactions involving fixed-income/equity securities and financial derivatives and to carry out other transactions specified in the prevailing laws, the consolidated text of the General Resolutions and rules issued by the National Securities Commission (CNV, *for its Spanish acronym*), the By-laws, the Internal and Operative Regulations, the Communications issued by the Mercado de Valores de Buenos Aires S.A. (as provided in Law No. 26831 and Executive Order No. 1023/13) and the other rules governing the business (FATCA, etc.).

Provincia Bursátil S.A. acts on behalf of principals (whether natural or artificial persons, private or public) and carries out its brokerage activities with own funds, under the same operative mechanisms, either at the concurrence market (electronic and floor trading) or under the continuous trading system.

In 2014, the CNV enacted a new Law which provided for an interconnected federal market so as to achieve a fluid information exchange, greater openness, participation and inclusion, and higher transparency under the control, regulation and supervision of the CNV. This encouraged the adoption of corporate government guidelines for market intermediaries, eliminating self-regulation procedures and implementing a demutualization process and a new registry of companies with new categories of agents.

Such implementation entailed a change in the economic and financial equation of intermediaries, temporarily modifying the structure of income/cost, mainly those of a regulatory nature.

The new strategy adopted by the Company has demanded more professionalism from its members, adapting the existing structures to the new regulatory requirements imposed by the control authority.

From a business viewpoint, the Company continued building its strategy in the search of alternative segments, mainly focusing on the primary placement of financial trusts, negotiable obligations, Suppliers' Bonds and Bonds under Provincial Law No. 14315. Together with the Bank's Investment Unit and the Provincial Ministry of Economy, the Company devoted specially to the placement of the Treasury Bill Program launched by the Province of Buenos Aires which resulted in 84 successful issuances.

The relationship with institutional customers intensified, particularly with social security funds for professionals of Buenos Aires and other provinces. This situation resulted in the diversification and increase of the transactions entrusted to the Company. New individual customers and mutual fund managing companies with a non-bank depository institution were also added.

During 2014, the Company went on developing the Cereal Division which was duly registered with Mercado a Término de Buenos Aires S.A. with the purpose of carrying out brokerage activities involving cereal grain forward contracts.

On the occasion of the 128<sup>th</sup> Rural Exhibition held in July 2014, the Company and Provincia Leasing S.A. jointly launched a program involving grain-cancelable contracts for the agricultural sector aimed at integrating both the investment and commercialization stages. The purpose of the program was to promote higher operating efficiency and to get access to the best export prices for the production of grains and oil seeds.

Additionally, the Company received two dividends from Provingfondos S.A. (controlled company) for a total amount of \$6,180,337.64.-



- **Provinfondos S.A. – Mutual Fund Managing Company**

Provinfondos S.A. is a 20-year old firm that carries out activities as a mutual fund managing company in line with the provisions of Law No. 24083. Banco de la Provincia de Buenos Aires is the Depositary Company.

It manages a portfolio of mutual funds composed of Argentine stock, government securities, trusts and money. At December 31, 2014, total equity managed by Provinfondos S.A. amounted to \$1,229.5 million, 43.7% over the level attained at the end of 2013. Investments made by institutional investors (\$405 million) and other customers from de Investment Unit largely accounted for such increase.

During the year, the controlling company Provincia Bursátil S.A. was capitalized for a total amount of \$6,180,337.64 so as to provide it with the net worth required to be registered as Settlement and Clearing Agent and Intermediary Agent before the National Securities Commission.

In 2014, the Bank's home banking platform (BIP) meant a valuable alternative channel to attract new retail investors. Through this channel, the Company obtained almost \$467 million, accounting for a 185% y/y increase.

#### **2.1.11. Institutional Presence**

Corporate identity guides the institutional actions and strategic decisions and reflects the Bank's foundational values. Within this framework, the activities carried out by the Corporate Communication Unit help bringing the Bank closer to people, generating tribute, training and development programs through communication.

In 2014, the Corporate Communication Unit was awarded ISO 9001 quality management certification for the processes developed by:

- the Advertising Deputy Management and its Media Planning and Creativity and Production departments;
- the Public Relations Deputy Management and its Direct Marketing and Ceremonial & Corporate Events departments;
- the Administrative and Technical Coordination Deputy Management and its Audit, Procurement and Administrative Coordination departments;
- the Press and Digital Communication department.

Together with Commercial Policy, SME Banking, Finance, Foreign Trade and Agricultural Banking, the Corporate Communication Unit maintained an active institutional, advertising and commercial presence in important exhibitions, fairs and congresses held in different cultural and productive sectors of the province and city of Buenos Aires.

<b>FAIRS, EXHIBITIONS AND CONGRESSES</b>	<b>MONTH</b>	<b>PLACE</b>
EXPOAGRO 2014 (AGRICULTURAL AND FARMING EXHIBITION)	MARCH	RAMALLO
FISA 2014 (MULTISECTORIAL EXHIBITION)	MARCH	BAHÍA BLANCA
EXPO CHIVILCOY 2014 (MULTISECTORIAL EXHIBITION)	MARCH	CHIVILCOY
ENCUENTRO GANADERO 2014 (LIVESTOCK EXHIBITION)	MARCH	CHILLAR
CONGRESO DE LA ORGANIZACIÓN MUNDIAL DE AGRICULTURA (WORLD ORGANIZATION FOR AGRICULTURE CONGRESS)	MARCH	CITY OF BUENOS AIRES
EXPO SUIPACHA 2014 (MULTISECTORIAL EXHIBITION)	APRIL	SUIPACHA
40º FERIA INTERNACIONAL DEL LIBRO (INTERNATIONAL BOOK FAIR)	APRIL/MAY	CITY OF BUENOS AIRES
1º CONGRESO MULTIDISCIPLINARIO DE CARDIOLOGÍA (CARDIOLOGY CONGRESS)	MAY	CITY OF BUENOS AIRES
CAMINOS Y SABORES (SMALL PRODUCERS' FAIR)	JULY	CITY OF BUENOS AIRES
128º EXPOSICIÓN GANADERA EN LA RURAL DE PALERMO (LIVESTOCK EXHIBITION)	JULY	CITY OF BUENOS AIRES
9º EDICION EXPOVINOS BRAGADO (WINE PRODUCERS' FAIR)	AUGUST	BRAGADO



ESPACIO GOURMET (FOOD AND BEVERAGES)	AUGUST	PILAR
EXPO INDUSTRIAL AVELLANEDA (INDUSTRY EXHIBITION)	SEPTEMBER	AVELLANEDA
FORO INTERNACIONAL SOBRE EL DERECHO DE LAS MUJERES (FORUM ON WOMEN'S RIGHTS)	SEPTEMBER	MAR DEL PLATA
XII CONGRESO ARGENTINO DE SALUD (ARGENTINE HEALTH CONGRESS)	SEPTEMBER	TUCUMAN
LA MATANZA EXPONE (PRODUCTS AND SERVICES EXHIBITION)	OCTOBER	LA MATANZA
XXVII EXPOSICIÓN GANADERA, COMERCIAL E INDUSTRIAL (LIVESTOCK, TRADE AND INDUSTRY EXHIBITION)	OCTOBER	LAPRIDA
EXPO CAÑUELAS (MULTISECTORIAL EXHIBITION)	NOVEMBER	CAÑUELAS
EXPO LOMAS 2014 (MULTISECTORIAL EXHIBITION)	NOVEMBER	LOMAS DE ZAMORA
INNOVA BALCARCE 2014 (TECHNOLOGICAL INNOVATION)	NOVEMBER	BALCARCE
LA PLATA PRODUCE (TRADE, INDUSTRY AND SERVICES EXHIBITION)	DECEMBER	LA PLATA

Along with the Bank's lending areas, new products were launched and offered at business meetings held with both existing and potential customers at Chacabuco, Ramallo, San Antonio de Areco, General Belgrano and Balcarce districts and at neighborhood of Belgrano in the city of Buenos Aires.

Likewise, the Public Relations Deputy Management, together with the Branch Network Management and the different Regional Centers, organized the visit of the Bank's President to the inauguration of the remodeled branches located in the districts of Bragado, Mercedes, Pergamino, Florencio Varela, Villa Luzuriaga, Chacabuco, Bahía Blanca, Lobos and Cañuelas and in the neighborhoods of Nueva Pompeya, Palermo and Liniers in the city of Buenos Aires.

The following actions were taken in branches during 2014:

- 100<sup>th</sup> Anniversary of the Once branch;
- 150<sup>th</sup> Anniversary of the Mercedes branch;
- 100<sup>th</sup> Anniversary of the San Antonio de Areco branch;
- 100<sup>th</sup> Anniversary of the San Andrés de Giles branch;
- 140<sup>th</sup> Anniversary of the Pergamino branch;
- 150<sup>th</sup> Anniversary of the Dolores branch; and
- 130<sup>th</sup> Anniversary of the Balcarce branch;

The following institutional events addressed to employees and officers of the Bank were also staged and organized:

- Ceremony to commemorate the National Day of Memory for Truth and Justice at the Presidente Arturo Jauretche Head Office;
- Solidarity action carried out along with volunteer staff members from the Bank: "Un Techo para mi País" in the El Futuro neighborhood, city of La Plata;
- "Jauretche 2014" award ceremony at the Presidente Arturo Jauretche Head Office;
- Welcome ceremony for new employees and their families at the Presidente Arturo Jauretche Head Office;
- Gold Medal award ceremony honoring retired employees at the premises of La Rural;
- 2014 Network Management meeting at the Sheraton Hotel, Pilar;
- Welcome ceremony to Our Lady of Luján image at Guanahani premises.

The Bank also ratified its institutional presence by participating in over 300 celebrations, popular festivals, cultural/sports events, fairs and auction sales carried out throughout the province.

Loyalty campaigns have been introduced such as the "Banco Provincia Golf Challenge Trophy" played by competitors from different Argentine banking institutions, and the "Buenos Aires de Mujer" program. The goal to bring female customers closer to the Bank has been achieved through the mentioned program, which has helped developing deeper empathy with the Bank's institutional image. In this context, a series of talks has been organized consisting of 11 meetings held with inspiring women interviewed by the well known journalist Silvina Chediek. The following figures have taken part in the program: Gabriela Acher (humorist), Mónica Cahen D'Anvers (journalist), Andrea



Wertheim and Andrea Grobocopatel (business women), Cristina Alvarez Rodriguez and Graciela Fernandez Meijide (politicians), Julia Zenko (singer), Nora Vega, Inés Arrondo and Bettina Fulco (sportswomen born in Mar del Plata), Teté Coustarot (TV hostess) and Karina Rabolini (President of the Fundación Banco Provincia).

- **Advertising Presence, Press and Social Networks**

The Advertising Deputy Management under the supervision of the Corporate Communication Unit designs the advertising campaigns for traditional and non-traditional media to spread and promote the Bank's commercial products and institutional events.

It also coordinates the communication activities destined to promote the services especially designed by the Finance and Marketing and Loans Deputy General Managements.

Advertising campaigns have focused on credit and debit card benefits, new functionalities offered by the BIP service, BIP Móvil and Consumer Loans.

In 2014, tasks inherent in institutional and advertising activities have been included within the scope of the Press and Digital Communication department depending on the Corporate Communication Unit. This area manages the Twitter and Facebook accounts with the clear goal of building customer loyalty and coordinates its own Twitter account for information purposes.

In support of the "Buenos Aires de Mujer" program, the Press and Digital Communication department has also developed a blog under the same name which serves as a contact point to all interested parties.

In 2014, the Bank had an active presence in the media through different advertising campaigns:

- Consumer Loans
- Productive Investment Loans
- Working Capital
- Branch refurbishing
- BIP
- BIP Móvil
- Procampo Card
- The Magi
- Summer 2014
- Saint Valentine's Day
- Carnival
- Expoagro 2014 (agricultural exhibition)
- Women's Day
- Book Fair
- Holy Week
- Father's Day
- Winter 2014
- Friend's Day
- Children's Day
- Mother's Day
- Banco Provincia Anniversary
- Christmas and New Year
- Long Weekend

#### **2.1.12. Institutional Governance**

By Resolution No. 819/12 issued by the Bank's Board of Directors, the Institutional Governance, Ethics and Compliance Committee was created in line with the provisions laid down in BCRA Communication "A" 5201. This Committee is in charge of ensuring compliance with the terms specified in the Institutional Governance Code of Banco de la Provincia de Buenos Aires and their effective enforcement, and is responsible for suggesting updates on the Code.

In a meeting held on March 20, 2014, the Institutional Governance, Ethics and Compliance Committee decided to submit for consideration of the Board of Directors the updating of the



Institutional Governance Code. The new annual version includes changes to the composition of certain Committees and Commissions and to the Organization Chart. It also includes the amendments introduced to the Transparency Policy in order to comply with the BCRA mandatory requirement to publish information on Market Discipline in the institutional website. Through Resolution No. 397/14 dated March 27, the Board of Directors approved the document's updating, and the Institutional Governance, Ethics and Compliance Committee asserted that the Institutional Governance Code implemented by the Bank fits its profile, complexity and importance.

In light of the foregoing and according to the Bank's Transparency Policy, the Institutional Governance Code is publicly available on the Bank's website: [www.bancoprovincia.com.ar/institucional](http://www.bancoprovincia.com.ar/institucional).

## 2.2. Financial Statements

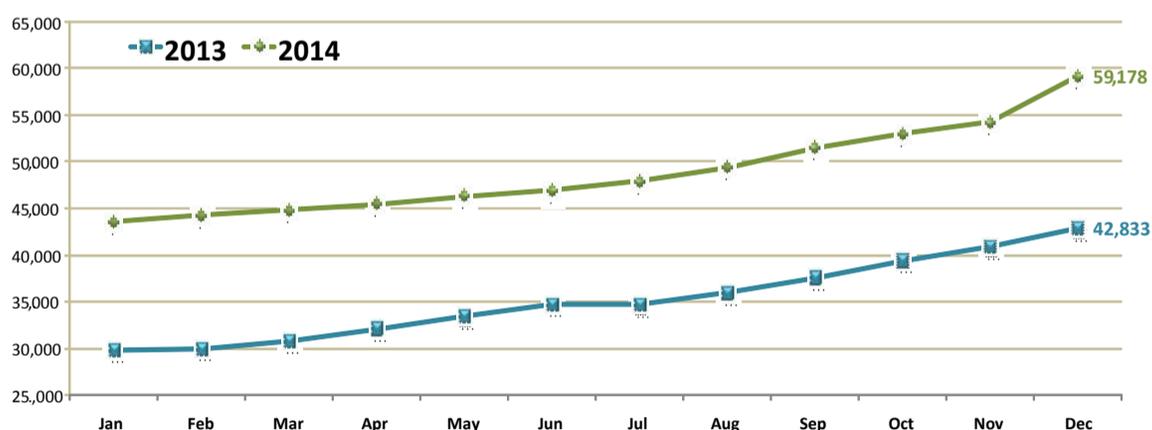
### 2.2.1. Balance Sheet

#### • Assets

In 2014, the consolidated figures with the Bank's foreign branches showed a 38.05% y/y growth in Assets equivalent to \$29,582 million mainly due to increases in:

- Cash and Due from Banks, which grew 9.54%, equivalent to \$1,268 million.
- The Loans caption, net of the uncollectibility allowance, which improved by 38.16% (\$16,345 million) mainly on account of loans to the private sector, particularly Consumer Loans, Notes and Credit Cards. On the other hand, loans to the public sector amounted to \$3,502 million (67.28%).
- Government and Corporate Securities, which grew 61.98% (\$7,274 million) mainly due to the increase in securities issued by the BCRA valued at cost plus yield, at fair market value, and repo transactions for \$8,567 million; this was partially neutralized by the \$2,361 million decline resulting from the sale of Boden 2015, Buenos Aires 2018 (BP18) and Bonar 2014 (AE14).
- Other Assets showed a slight comparative change. The Miscellaneous Receivables caption recorded the highest variation, increasing by \$1,298 million (63.03%).
- Other Receivables from Financial Brokerage, which recorded a \$2,974 million increase (+49.4% y/y) mainly due to the \$3,050 million received on repo transactions involving instruments issued by the BCRA.

**Evolution of BPBA Loans (total figures, net of allowances)**  
In millions of \$

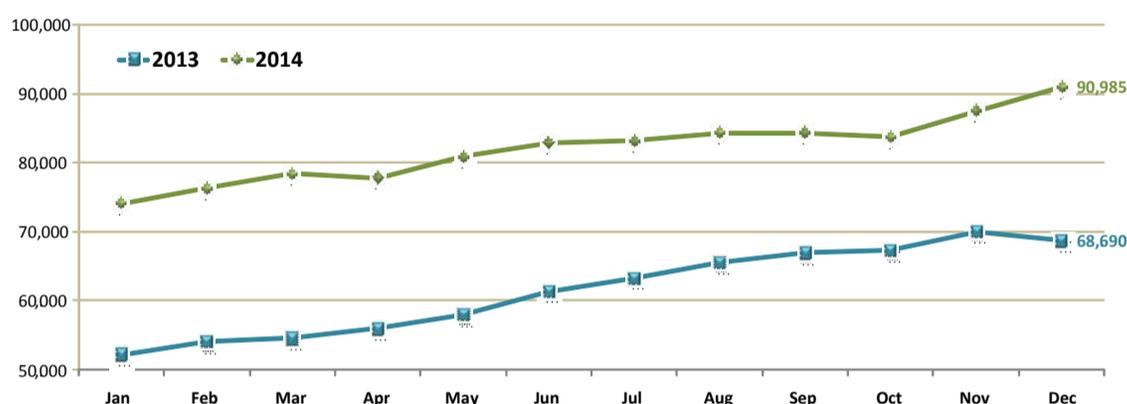


#### Liabilities

Consolidated figures with the Bank's foreign branches showed a 36.45% increase in Liabilities equivalent to \$26,564 million. Deposits, its main caption, rose by 32.46% (\$22,295 million) mainly due to the expansion of private sector placements for \$16,715 million (checking accounts, savings accounts and term deposits stood out) and the increase in public sector deposits by \$ 5,511 million.

Other Liabilities from Financial Brokerage rose by 193.77% accounting for \$4,607 million. Such increase resulted mainly from repo transactions involving instruments issued by the BCRA (\$3,252 million)

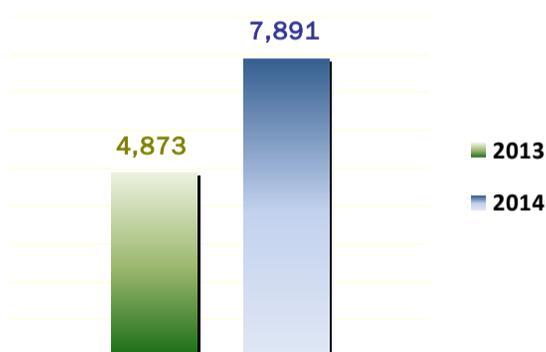
**Evolution of BPBA Deposits (total figures)**  
In millions of \$



- **Net Worth**

In 2014, Net Worth increased \$3,017 million as against the previous year, as a consequence of a \$3,042 million positive result, net of a \$24 million charge for Prior Year Adjustments.

**Changes in Net Worth**  
In millions of \$



### 2.2.2. Statement of Income

Total income reached \$3,042 million, accounting for a 110.9% increase (\$1,600 million) over last year. This was due to the favorable performance of financial brokerage which totaled \$3,087 million (43.6% y/y increase).

The gross financial brokerage margin totaled \$8,516 million, 48.34% higher than in 2013. This figure resulted from the significant contribution made by interest collected (consumer loans, mortgage loans, notes and credit cards). However, it was partially neutralized by a large financial expenditure owing to the growth in fixed-term deposits.

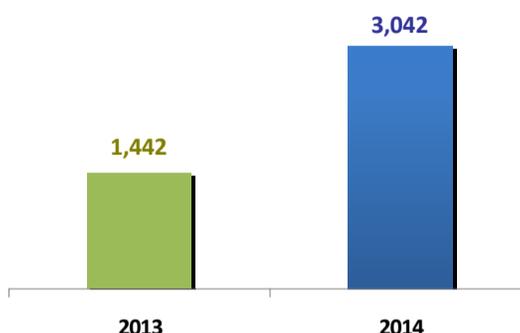
The net contribution of income from services grew by 23.9%, amounting to \$2,996 million. The most significant increases were observed in the commissions charged to Procampo and Visa credit cards and commissions related to Provincia Seguros.

Administrative Expenses totaled \$7,748 million, accounting for a 38.11% y/y increase.

Miscellaneous Income and Miscellaneous Losses posted a \$45 million loss mainly due to a reduction in net income on long-term investments and provisions for future contingencies.



### Statement of Income In millions of \$



## 3. Prospects

### 3.1. Medium-term Scenario

In the medium term, international economy would show less favorable to the expansion of emerging economies as a result of the incipient regularization of global financial variables and its negative impact on the prices of commodities. The change in the performance of global monetary policy will imply higher interest rates and resulting reduced capital flows towards emerging countries, thus determining a reduction in liquidity and showing more difficulties to finance current account imbalances. In certain cases, this situation would be offset by a significant drop in the prices of energy supplies, and, to a lesser extent, of food. In this context, the soundest economies would continue to be on the rise while those with external and fiscal imbalances will have to make adjustments in order to keep in the growing path.

According to the IMF estimates, world economy would increase 3.5% in 2015, showing a slight 0.1 pp acceleration with respect to 2014 figures. Such increase would be mainly observed in developed economies which would rise 2.4%, 0.6 pp over the previous year, while emerging economies would improve 4.3 %, 0.3 pp below 2013. Thus, a slowdown in the growth rate would be recorded for the second year. In this context, world trade turnover would expand from 3.4% in 2014 to 3.7% in 2015, mainly boosted by developed economies.

Among them, the United States could consolidate its employment and economic growth dynamics and this performance is expected to persist throughout 2015. Such situation would allow expansion to keep over an annual 3% in the following years with low inflation risks due to the currency appreciation process. The Euro-zone economy would continue recovering, but at low growth rates. Even though the recent implementation of a new asset purchase program intended to maintain low interest rates and promote consumption and investment, the lower demand of emerging countries, the decline in investment and the need to continue consolidating the fiscal scenario would limit the economic upturn. Particularly, Eurozone GDP is expected to expand 1.5% in 2015 as against the 0.9% recorded in 2014 according to the IMF forecasts.

With respect to the largest trading partners of Argentina, China's growth projections for 2015 stand at an annual 6.8%, below the 7.4% y/y recorded in the preceding year. This situation is mainly related to the authorities' need to reduce financial weaknesses and to the change of strategy oriented to consumption rather than to investment. This situation negatively affects the rest of emerging Asia and the economies exporting commodities related to construction. Brazil, the major trading partner of Argentina, faces a process of uncertainty and volatility of the Brazilian real, when the new economic authorities are reconsidering the fiscal policy, which would adversely affect our country. In a context in which the drop in commodities prices determines the reduction in the value of exports, capital outflows and fiscal adjustment would contribute to the 0.1% y/y contraction of the Brazilian economy as forecasted by the IMF, as against the 0.1% y/y expansion of the previous year.

With respect to the international prices of commodities, a drop in prices is forecasted for 2015 as a result of the change in products' components, the expected increase in interest rates, the dollar strengthening and the transfer of risky assets' investments, as for example primary products, to safer



assets. Energy asset prices would register the most significant decline (39.6% on average) as a consequence of a higher offer and a less dynamic demand. Though to a lesser extent, the prices of agricultural products would also fall due to the expectation of a new high crop and a strong surplus of stocks.

In short, the world scenario offers poor prospects for Argentina due to the expected drop in Brazilian demand and the fall in export prices. This situation would be slightly offset by the lower prices of energy supplies, which would reduce the demand for foreign currency to honor the country deficit.

The scenario for Argentina would not show major changes throughout 2015 as compared with the previous year. In the external scenario, the shrinkage in the Brazilian market, the fall in the prices of commodities and the higher appreciation of the local currency forecast a new drop in exports, while in the local market, even though an increase in population income levels is foreseen, saving levels would keep high and the offer of goods and services would depend on foreign currency availability.

### **3.2. Actions for 2015**

- **Budgetary Goals**

The Bank's Expenditure and Revenue Budget for the 2015 fiscal year, included in Provincial General Budget Law No. 14,652, was fixed at \$11,618.29 million and contemplates the amount of resources required to meet them.

Revenue estimates approved by the mentioned law were calculated on the (net) Income from Financial, Services and Foreign Branches Transactions and Miscellaneous, which amounted to \$11,618.29 million, thus matching budgeted expenditure.

Expenditure estimates were calculated according to the established policies on the rendering of services and incorporation of assets, ensuring the Bank's self-financing and capitalization and assuming a permanent and temporary staff of 9,913 and 684 employees, respectively.

- **Actions**

Actions to be taken are in line with the policies defined by each management area.

#### **3.2.1. Financing Activity**

During 2015 and in line with the financial strategy of the latest years, the Bank will continue raising funds to support its lending policy, optimizing funding costs and maintaining liquidity ratios within projected levels.

Private deposits in the Financial System are expected to increase about 30% in 2015 while placements in the Bank will likely surpass such level by one or two percentage points. Prospects anticipate a 9.3% market share in total deposits – slightly over the level attained in 2014 – with a y/y stock increase somewhat below 26% and a *market share* of 9.4% for private deposits.

An upward trend in borrowing interest rates is forecasted mainly in the retail market, as a consequence of the regulatory changes introduced by the Central Bank in October.

#### **Capital Markets**

One of the main goals for 2015 is to participate in the structuring, issuance and placement of Provincial debt securities carried out by the Province of Buenos Aires in both national and international markets, offering the same service to other issuers from the public and private sectors.

Steps will continue to be taken to comply with the regulatory requirements provided in Law on Capital Markets No. 26831, as regulated by the National Securities Commission, which provides for a comprehensive reform of capital markets' transactions.

|



## Financial Business

The main actions for 2015 are detailed below:

- To continue raising consciousness of the different Business Units regarding the “Integral Financial Service” approach.
- To arrange the inclusion of financial officers in those Regional Centers where they are necessary.
- To attend, either in person or through video conferences, Training Courses for Business Units' agents on economic and financial issues.
- To implement the ISO 9001 quality standard in the Bank's Investment Unit.
- To continue with the campaigns to “get retail and wholesale fixed-term deposits” according to the Bank's liquidity needs.
- To actively participate in conferences, fairs and other events in the Province of Buenos Aires and the interior of the country.
- To continue introducing contents and functions to the Investment Unit's application.
- To implement a special telephone and Skype contact center in “Espacio Provincia” areas.
- To contribute to the creation and development of the MIFI (My Finances) tool.
- To implement a different scheme for foreign exchange settlement prices, according to the companies' turnover and reciprocity with the Foreign Trade Management and the Bank as a whole.
- To exclusively deal with retail orders to purchase/sell securities and shares through the Securities Trading Desk by means of the SINAC (Integrated System for Computer Assisted Trading) – Merval.
- To implement a commercial campaign intended to increase securities' turnover, and, consequently, commissions' figures.
- To visit those companies that daily and directly carry out foreign exchange settlement with the Foreign Exchange Trading Desk.
- To actively participate in investment decisions regarding the different branches' portfolios.
- To participate in the preparation of debt instruments of different municipalities and other provinces.
- To prepare new reports for the General Management and the Board of Directors, as well as for particular customers.
- To continue adding the new financial products demanded by the market (US Dollar Future Agreements) in order to broaden the offer to Bank's customers.

### **3.2.2. Commercial Activity**

#### **3.2.2.1. Loan Activity**

As in the previous fiscal years, the Bank will attempt to be present in every market segments as regards recipients (families and companies) and terms, considering the macroeconomic scenario so as to avoid unexpected results. It will try to take longer positions in the curve yield. However, if the scenario looks favorable for doing so, the Bank will continue meeting companies' liquidity needs in the shorter terms by means of the discount of third party deferred payment checks. This means that the Bank's credit policy will not specialize in specific activity segments or terms even though it will continue stimulating production and boosting micro, small and medium enterprises (MiSMEs) in its role as development bank and financial tool of the Province of Buenos Aires.

The diversification of the product offering, boosted by the BIP channel, together with the continuous review of the demand needs and the surveys about the status of the competing banks shall be the necessary keys to be in line with the business and to avoid any negative exogenous impact.

##### **3.2.2.1.1 Corporate Loans**

The Bank will continue granting facilities to finance business development, increase and improvement of working capital and investments, as well as any specific lending program that may prove necessary. Focus will be made on MiSMEs and on the renewal of production financing agreements without causing sector-specific rationing. Great efforts will be made to request commercial reciprocity so as to maximize the possibility of short and long term business activities.



### Agricultural Sector

The Bank has planned to continue developing products and services with the purpose of granting loans for \$20,000 million.

To comply with the goal set by the Bank, the Credit Facility for Productive Investment, characterized by a fixed interest rate during the first three-year period (19.0%), will be maintained. The Bank will continue offering a Credit Facility for Productive Investment for the acquisition of Capital Goods – agreements with suppliers – with a unique 36-month term, at an annual fixed rate of 17.50%, at the same that it will continue promoting and placing subsidized interest rate loans.

With regard to the Procampo card, the Bank will keep on encouraging strategic alliances with leading input suppliers; special agreements will be offered allowing producers to get financing at low-cost and the wheat special promotion for 2015/2016 will continue with payments of up to 270 days at a 0% rate and other similar actions will be implemented for inputs, seeds and fuels. Likewise, attraction (increase in the spending amount of courtesy Procampo cards to speed up the response time of Business Units), activation and consumption campaigns will be conducted and margins will be reviewed in order to adjust them to the effective capacity of each customer.

The Bank will continue actively participating in agricultural events (Expoagro, Palermo Rural Exhibition, livestock auctions, etc.) in order to promote products/services, contact producers to consolidate existing relationships and attract those who are not dealing with the Bank yet.

### Industrial, Commercial and Services SMEs and MiSMEs

Actions for 2015 forecast a 50% rise in the overall credit volume; corporate loans to be granted through the SME Banking channel would amount to \$12,000 million.

Commercial actions planned for the year include opening commercial premises called “Espacio Provincia” located at the Industrial Parks of the Province of Buenos Aires, as part of the strategy to strengthen the Bank’s presence while accompanying SMEs.

### Corporate Banking

The Bank plans to keep on increasing and diversifying the business volume of this area, both in terms of companies and individuals, through salary payment agreements and customer loyalty campaigns to be carried out in the future by the pertinent commercial staff.

Within the commercial strategy, special emphasis will be placed on the geographical distribution of companies, the relationship with branches and Regional Centers, the efficient exploitation of own resources and the strengthening of each value chain identified within the Province. Likewise, with the support of the Management’s staff, the Bank will maintain its on-going improvement process, focusing specially on innovative products and services for both personal and corporate banking and optimizing in-house processes which will allow setting the difference with competitors.

### Micro-enterprises

Expectations for 2015 include the optimization of the “Microfinanzas” program (PROMES.A.) under which about 26,782 loans would be granted for a total amount of \$717.6 million. This figure accounts for a 26.3% increase in lending volume and a 9.5% rise in the number of loans granted with respect to fiscal year 2014. Additionally, Provincia Microempresas considers that the opening of 6 new branches will boost the sales force in different locations of the Province of Buenos Aires.

#### **3.2.2.1.2 Loans to Individuals**

In this segment, the Bank will continue diversifying the portfolio of products offered to employees from the public and private sectors, taking into account their specific needs and risk ratings.



### **3.2.2.2. Service Management**

#### Credit and Debit Cards

The scope of the debit and credit card market is expected to increase, especially in view of the great potential of the instruments involved. In order to strengthen the institutional position, new markets, business opportunities and innovative strategies will be explored; affinity groups will be used to promote actions specifically oriented to each segment, mainly in relatively low-developed markets.

Through associated banks, pre-embossing activities will be coordinated and high-quality products and reloadable cards will be offered. Through benefit programs, the Bank will continue encouraging its brand installation process. The existing strategies will be maintained, however, classic financial intermediation will also be fostered by means of these promotional mechanisms, rewards campaigns and increasingly aggressive actions. The scheme to build customer loyalty emerging from this dynamic process will ease the continuous offering of diversified products with the joint support of Grupo Banco Provincia's companies.

Business sustainability and stability will be essential. At the same time, the commercial aggressiveness and the development of the new commercial assistance channel located at industrial parks aimed at providing services for SMEs' daily activities will be key issues.

#### Electronic Means of Payment

The goal for 2015 will be to continue broadening the different platforms' functions, which will enable:

- To add those reluctant segments of the market to electronic means of payment.
- To increase the number of users of these channels with respect to the total number of customers.
- To improve the products and services' portfolio of the Bank and Grupo Provincia companies, and others that may be traded from these platforms.
- To increase the number of transactions shifting from physical to electronic channels.

Mention should be made that the development of these channels will significantly reduce marginal and average operating costs. The BIP platform is expected to reach 800,000 registered users by December 2015. This will positively affect the shift to electronic channels and to self-managed transactions (application for products/services and their acquisition via Internet). By the end of 2015, it is expected that some applications will be automated.

In this sense, it is forecasted that the following items will be available

- Application and automatic generation of the increase in credit card limits.
- Cash withdrawal orders without card (Punto Efectivo).
- Taking out of an insurance policy for robbery in ATM.
- Hiring of life insurance (Provincia Vida).
- Application of commercial reports (Veraz).

With respect to the BIP Empresas platform, the main goal will be the development of BIP for companies so as to offer a better service to large enterprises, other entities and the public sector, the implementation of which is expected for the last quarter of the year. With regard to BIP Móvil, it is intended to finish the total implementation of all the functionalities and to set up a "log in" separate from the BIP platform.

#### Foreign Trade

For 2015, the Bank will maintain the same goals: to consolidate the Bank's position in the Province of Buenos Aires's foreign trade, to enlarge its share in the financial market and to improve income from services, at the same time that the administration will focus on customer and profitability through actions that will concentrate on:

- Implementing a new foreign trade system.
- Managing the banking business, maximizing income and minimizing costs.



- Rising transaction and loan volumes, focusing on SMEs of the Province of Buenos Aires.
- Strengthening the participation of Sao Paulo and Montevideo branches and increasing the balance of the loan portfolio.

### **3.2.3. Credit Rating**

During 2014, a new web-based platform was developed, which will enable to improve customer classification processes and to be in line with Basle III principles. To this end, through the *Corporate Scoring* application, the Balance Sheet, Sales, Debts, Flow of Funds and related Reports Database has been established throughout the Management, thus complying with the first principle of having a uniform data base. During 2015, the Bank will continue its development, adding rating models with its respective Probability of Default (PD), Limits Recommender, PRICING (rate spreads) and the transaction management process.

Thus, existing activities will turn into a most dynamic and integrated system, accessible by all members of the Credit Assessment Management in real time. It will help improve process efficiency, ensure database consistency and greater security, maintain objectivity in the credit assessment task and comply with the BCRA rules which provide for the adjustment to internal rating systems.

The interaction of such processes will allow to have a totally digitalized workflow and apply these tools for Credit Assessment Management as regards programmed decisions on credits for certain types of transactions and schemes of profitability per client (RAROC – Return on Risk-Adjusted Capital).

Likewise, the implementation of new developments in the *Individual Scoring* system will allow incorporating new portfolios through the BIP platform, enhancing product offering, adjusting to commercial, credit and/or regulatory amendments which will result in greater dynamism.

### **3.2.4. Loan Recovery Policy**

The Bank will continue with out-of-court actions in the debtor's location and will maintain management teams in line with the size of the pertinent delinquent portfolio.

At the beginning of 2015 the general guidelines for the follow-up of debtors who are unable to regularize their situation will be updated by a tool that will allow to take into consideration not only common patterns and features but also particular situations and the repayment capacity of debtors on a case by case basis.

### **3.2.5. Relationship with the Provincial Public Sector**

The relationship with the different provincial districts will be deepened in 2015 to offer the wide range of banking products and services, mainly to continue providing financial support so as to carry out infrastructure works.

Likewise, the Bank will keep on lending assistance to the nineteen municipalities included in the Buenos Aires Hogar Program.

Joint tasks with provincial agencies will continue in order to find solutions and optimize efficiency levels, being one of their main goals to obtain the massive adherence to the Petty Cash system.

Another goal defined for 2015 is to improve the social plan payment process so as to devote business units' resources to other more commercial features enabling the increase in income from services. At the same time, plans to reduce the collection of taxes and services at cash desks will be intensified, stimulating customers to make use of electronic tools.

### **3.2.6. Human Resources**

The following goals have been set:

- To maintain the zero-vacancy goal as regards managerial positions in branches.



- To go on defining staff training programs and address actions towards the development and strengthening of all capabilities required to fill different job positions and ensure efficient performance.
- To encourage the remote training experience, promoting the use of the virtual platform.
- To implement actions aimed at improving staff integration, communication and social commitment.

### **3.2.7. IT Policy**

According to the 2015 IT Operative Plan, the Bank will continue consolidating its IT systems and updating technology. Projects to be developed include:

- Business Data Base – Evolutive maintenance
- Bip Móvil – Evolutive maintenance
- BIP - Corporate
- Customer Flow management
- Multichannel strategy
- Printing of Debit Cards in Branches
- New Foreign Trade System
- Suite of Products
- Reengineering of Individual and Corporate Credit Cards
- Improvements in the Payment System
- New JUREX System
- Accounting Inventories – BCRA Memorandum No. 317
- Accounting General Menu
- Dependencies Single Database
- Means of Payment Accounting Reconciliation – MASTER Portfolio
- (Legally bound) Reporting Party and FATCA (Foreign Account Tax Compliance Act)
- Upgrading and updating of WAN network links.
- Updating of Central Nodes and branch LAN Network.
- Unified Communication Solution
- Integral Data Backup Solution
- Updating and Improvement of the Mainframe Platform
- Information Systems Management's Integral Governance and Management Solution
- Updating of the DWDM Equipment
- Upgrading of the Monitoring Platform
- Increase in Credit Card Limits through BIP

### **3.2.8. Risk Management**

Among the different lines of action to be executed in 2015, the following are worth mentioning:

- Move towards risk consolidation, including Grupo Provincia companies.
- Go on analyzing the convenience of acquiring an application for managing risks throughout the bank, based on the use of the IT tools currently available in the area.
- Maximize the use of the risk datamart system specially created for the area so as to ensure greater efficiency and speed up processing times.
- Go on with the integration of Operational and Technical Risks.
- Implement the remaining modules of the Operational Risk tool with the corresponding training course for Bank's users.
- Draft, update and revise the methodological documents necessary for management efficiency, and develop new models in line with the scope and nature of the different risks.
- Progress in the improvement of the Bank's business continuity and contingency plan.

### **3.2.9. Grupo Banco Provincia**

In 2015, and under the provisions of the Strategic Plan approved for the 2015-2017 period, Grupo Provincia expects to consolidate and maximize the goals already attained which have led to a



significant improvement. It will focus on improving management practices and getting a sustained business segment for both the holding group and its member companies. To that end, the new strategic guidelines will be mainly directed at:

- Enhancing the company's turnover.
- Improving Management Indicators.
- Consolidating territorial expansion.
- Making progress with Process Quality management.
- Maintaining and reinforcing the Grupo Provincia brand.

In line with the above, the following strategic goals have been set for companies:

- Income growth
- Profitability growth
  - Improvement in gross margins
    - Greater Income or
    - Reduction in related costs
  - Better Technical/Operative Results
- Regional Growth
  - Positioning of Grupo Provincia in the interior of the country
  - Consolidation of corporate image and maintenance of brand
- Improved Processes
  - Identification of critical processes and projects
  - Preparation of Action Plans to regularize and improve quality in management.

In line with the general objectives, clear goals will be set for each company. Specific indicators will be defined for each of them and will be periodically monitored as previously agreed.

For fiscal 2015, budgeted commercial goals include consolidated services higher than \$13,000 million income.

### **3.2.10. Institutional Presence**

In order to go through the new recertification phase under the ISO 9001 standard, the Corporate Communication Unit will go on identifying improvement opportunities and other related tasks in each and every process implemented in the area.

This Unit, together with the Economic Research area, is organizing the Third Banco Provincia Seminar to be held in 2015. Almost 700 participants including entrepreneurs, professionals and students, are expected to attend the Seminar for free.

In the pursuit of the goals set and following the success achieved with "Buenos Aires de Mujer", the new "Hombres de Buenos Aires" program addressed to the Bank's male customers will be launched.

Anniversary celebrations will be held in branches timely selected and inauguration ceremonies will be conducted at remodeled branches. Likewise, new "Espacio Provincia" areas will be created in several industrial parks of the provincial territory.

### **3.2.11. Advertising Presence, Press and Social Networks**

The Corporate Communication Unit has already designed different advertising campaigns destined to promote the diversified portfolio of commercial products during 2015. Communication through social networks will be intensified, incorporating new on line proposals.