

2012 Annual Report

Banco de la Provincia de Buenos Aires



Banco Provincia 



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1. **Evolution of the macroeconomic context**

1.1. **Real sector**

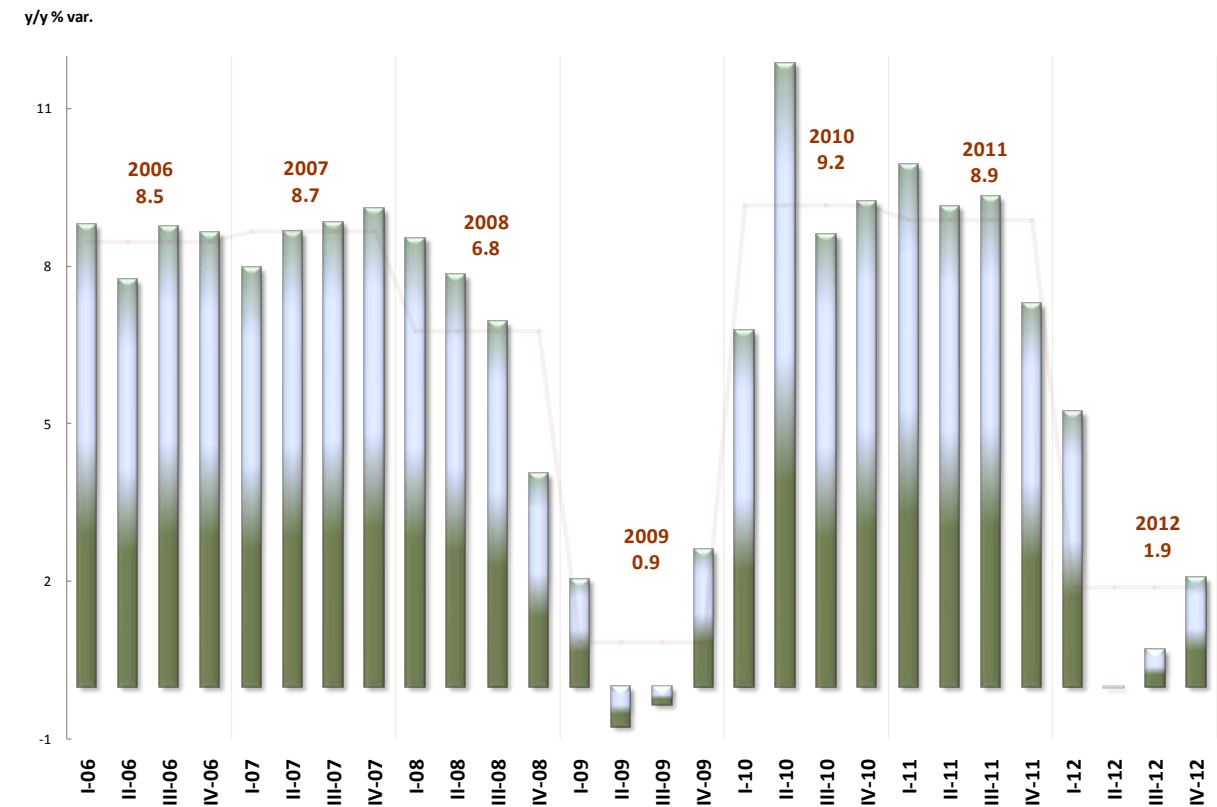
Global economy decelerated in 2012 as a result of the financial crisis that mainly affected the Eurozone during the first half of the year. This crisis derived from the increased financial volatility, in a context of greater uncertainty regarding solvency in the banking system and fiscal sustainability, which was partially overcome after the implementation of a new set of measures by the central banks of the main developed countries during second half of the year. The continued fiscal adjustment in developed countries caused a reduction in demand and affected global economic growth.

Such reduction was translated into a lower growth of emerging economies, mostly through commercial and financial channels. Trade volume showed a strong deceleration, moving from an annual 6.0% in 2011 to 2.5% in 2012. Financial flows evidenced an important shrinking in emerging economies during the first half of the year as a result of greater uncertainty. Finally, a change in the Chinese economic policy, seeking a higher concentration on consumption, led to an additional slow down in emerging economies.

At a regional level, the growth in Latin America expanded by 3.0% annually, 1.6 percentage points (p.p.) below the previous year, pursuant to information provided by the IMF. The strong deceleration recorded in Brazil resulting from the loss in competitiveness of its industrial sector and the lower external demand was one of the main reasons for the worsening.

In this scenario, the Argentine economy also showed a reduction in growth. Both internal and external factors combined to affect expansion. Under these circumstances, after growing 8.9% in 2011, the Gross Domestic Product (GDP) rose 1.9% in 2012, i.e. 7 p.p. below the previous year.

Evolution of Gross Domestic Product (GDP)
Y/y variation, in constant prices



Source: INDEC

In terms of supply, the growing pace of goods production fell 1.9%, mainly due to lower contributions from agricultural, construction and industrial sectors (11.3%, 2.6% and 0.4%, respectively). The agricultural sector was negatively affected by the drought experienced at the beginning of the year which resulted in a drop in production volumes. Likewise, the international crisis, and particularly the critical situation in Brazil, caused a decline in industrial activity. The greater uncertainty, the lower government spending and the modifications to foreign exchange rules resulted in a lower level of activity in the construction sector. The slight increase in the added value of mines and quarries (0.9%) was mainly due to greater investment in exploration, while energy, water and gas supply maintained a similar growth pace with respect to the previous year (4.8%).

Service-producing sectors recorded a 4.2% annual increase, 5 p.p. below the previous year. Financial brokerage (19.6%) stood as the most dynamic sector, followed by transport, storage and communications (5.0%). A strong deceleration in the growth of the added value of trade (1.9%), hotels and restaurants services (1.6%) and real estate activities (0.4%) was observed. Services related to public administration and education and health grew at a similar pace to that of 2011 (4.1% in both cases).

Imports dropped 5.2% in 2012, as a result of the contraction in purchases of capital and intermediate goods, in a context of lower demand for investment and decelerated industrial activity.

On the demand side, the growth in GDP was mainly due to consumption (both private and public). With a 4.4% annual improvement, private consumption continued boosting economy. The dynamic of this variable was favored by a strong labor market, better salary conditions and a growth in the size of public transfers that helped increase families' income in a context characterized by greater financing opportunities available from the credit market, installment plans and promotional campaigns launched by stores and banks. Public consumption evidenced a significant 6.5% y/y expansion but, due to its small share in GDP, it only represented 0.8 p.p. of total annual growth.

On the contrary, investment and exports contracted with respect to 2011. Investment recorded an annual 4.9% drop below the year before and the investment rate stood at 22.8% of GDP. Such decline focused on the shrinkage in construction and durable equipment spending, particularly in imported equipment as a consequence of tougher controls on external purchases. The decline in the agricultural balance and the lower demand from Brazil led to an annual 6.6 % drop in exported volumes.

With respect to the labor market, almost 157,400 new jobs were created on average throughout 2012, which implied a 1.0% rise over the previous year. The improvement in the employment rate was equivalent to the access of new workers to the labor market and the unemployment rate remained unchanged with respect to the previous year (7.0% of the economically active population). During 2012, the level of income of salary earners grew 26.8%, mainly boosted by private salaries. As regards wage improvements, during 2012 the "informal" private sector rose 30.8% while the "formal" sector grew by 30.3% and public administration increased 13.9%.

1.2. Public sector

The economic slow down and the drought experienced by the farming sector negatively affected tax revenues in a context in which the level of spending remained high, partly due to redistribution policies. Therefore, fiscal accounts showed a slight deficit, both at the primary level and after payment of interest.

Tax revenues amounted to \$679,799 million, 25.8% over the level attained in 2011. Thus, tax –to- GDP surged to a new historical record by 31.4%, 2.1 p.p. over 2011 figures.

This situation resulted from the outstanding performance of taxes imposed on social security and domestic activity, since resources from foreign trade significantly reduced during the year.

Income from Social Security grew by 30.8%, totaling \$175,590 million, as the result of the increase in formal employment and wages. At the same time, cap amounts for personal contributions rose.

Among taxes related to the activity level, the collection of the Income Tax showed the best performance with an annual expansion of 27.5%, thus amounting to \$138,440 million. This increase was due to the reporting of greater income and a wider taxpayer base including both companies and individuals.

The collection of the Value Added Tax (VAT) rose by 22.1%, standing at \$193,067 million, mainly boosted by families' consumption. This tax (which only grew by 2.8% in 2012 as against 33.0% in 2011) evidenced a lower growth rate due to the reduction in resources derived from the nationalization of imports.

With respect to income from foreign trade transactions, amounts collected by both imports and exports fell. Particularly, tax collection increased slightly over 13.0% compared to the rises of 18.9% in exports and of 28.6% in imports during 2011, thus witnessing a slow down in the general terms of trade.

Non-tax Government revenues rose by 25.0%, recording higher contributions from income on account of the remittance of BCRA profits and National Social Security Administration (*Administración Nacional de Seguridad Social* – ANSeS) interest. National Government's total income grew by 26.6% at the end of the fiscal year, slightly over the figures attained a year earlier.

Spending levels remained high, recording a 29.4% rise by the end of the year, i.e. 4.3 p.p. lower than the year before, but higher than the increase in income. Such rise was boosted by greater expenditure on account of interest, upon payment of the GDP-linked coupon.

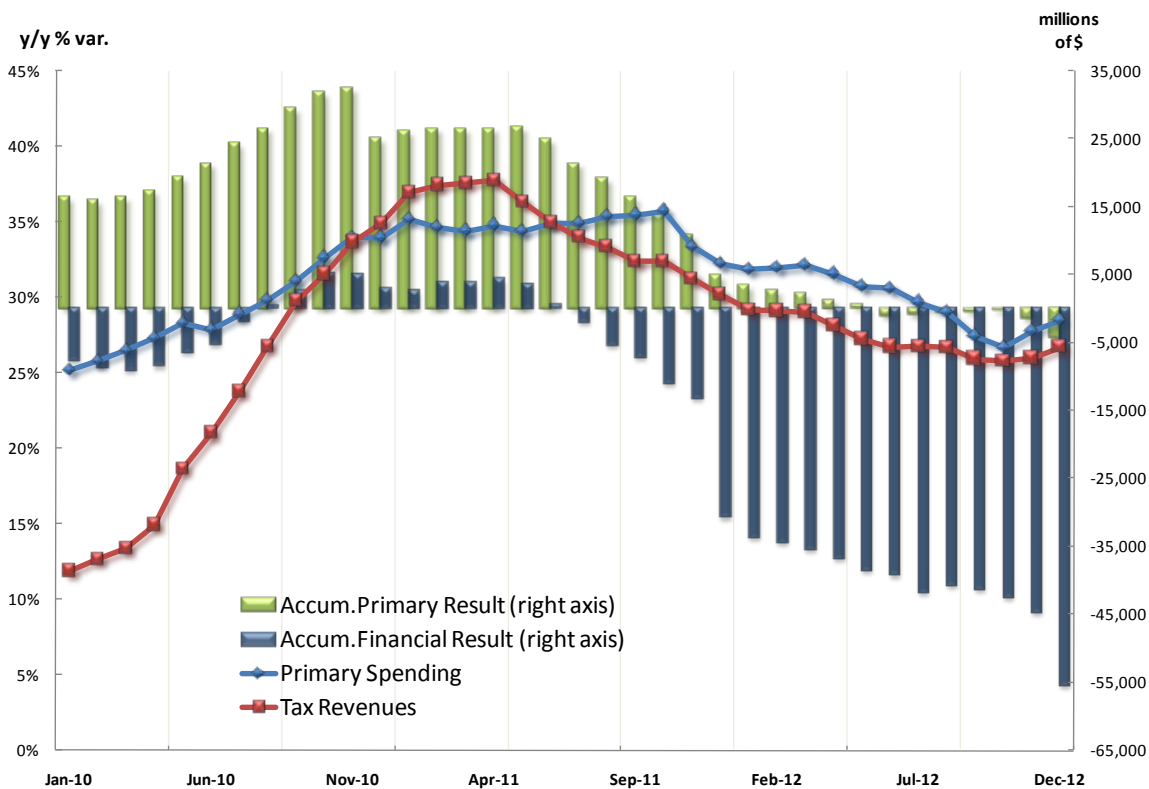
Primary Spending grew by 31.5% (\$722,862 million) fostered by higher spending in social security, wages and other current expenses.

Social security services rose by 39.1% due to the implementation of the mobility policy on pension payments which represented almost 36.0% of such enlarged primary spending. Wages improved by 29.3% due to the agreed salary increases and the greater number of employees, which sped up the growth of spending.

There was a marked contraction in other items such as transfers and capital expenditure. Spending related to current and capital transfers to provinces recorded an annual 22.2% rise, thus showing a 3.5 p.p. deceleration when compared with 2011. Transfers to the private sector grew 15.7% as a result of the subway transfer and a higher rationalization in disbursements made to land transport companies and showed their lowest growth rate since the 2009 crisis. Finally, capital expenditure expanded 22.1% annually, which represented 4.2% of such enlarged primary spending.

Other non-current expenditures soared 47.2%, thus keeping the same dynamics of the previous year, mainly driven by greater costs associated with imports of fuel.

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



Source: Ministry of Economy and Public Finance

In terms of GDP, primary spending increased by 1.6 p.p. while total income grew by 1.3 p.p., as a result of higher revenues from tax sources. Thus, the primary fiscal deficit amounted to -0.2% of GDP. The National Treasury continued meeting its financial liabilities; freely available international reserves were used to pay public debt owed to international lending institutions and private creditors.

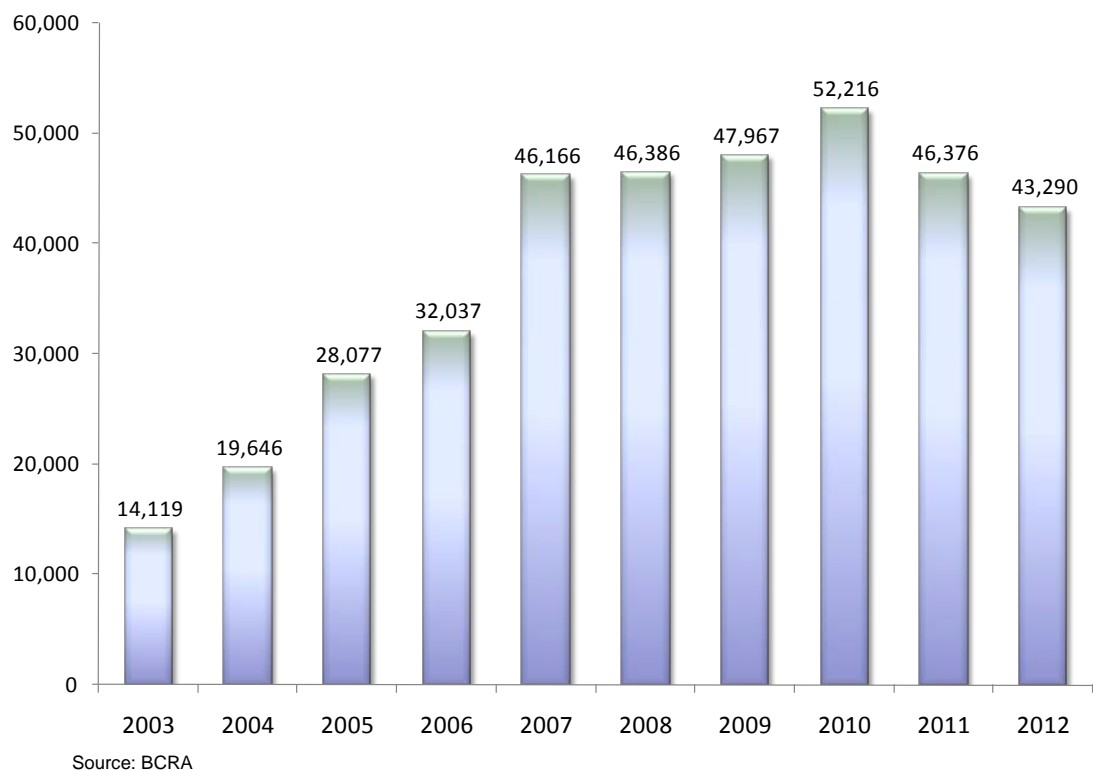
1.3. Monetary system and money market

Measures taken by the Government on monetary policy during the first months of 2012 were in line with the guidelines outlined by the end of 2011, particularly as regards the introduction of more controls on the purchase/sale of foreign currency by residents, the obligation to settle proceeds from exports of goods (hydrocarbons and mining), the shortening of terms for the settlement of export proceeds and the implementation of a daily follow up of transfers abroad, together with tougher customs controls on purchases of imported goods.

During 2012, the monetary authority maintained the managed float regime in order to moderate fluctuations in the exchange rate (\$/US\$) and protect International Reserves. However, reserves slipped by 6.7%, from US\$46,376 million at December 2011 to US\$43,290 million at the end of 2012 due to a greater demand but a lower supply of foreign currency.

Such performance was driven by the following factors: payments of public sector and BCRA debt principal and interest in foreign currency for an amount of almost US\$9,700 million, where the payment of GDP-linked instruments for approximately US\$2,800 million in December stood out. And also as a result of the reversion of net flows in financial loans for US\$8,300 million, partly due to the slow down recorded in financial loans from abroad and, mainly, to net cancellations of domestic loans granted by financial institutions. This latter situation derived from the withdrawal of local deposits in foreign currency at the same time that domestic loans in Pesos improved. Mention should also be made of the increase in net payments on account of spending related with tourism and trips of residents abroad, which in previous years were covered by the purchase of foreign currency and traveler's cheques according to regulations concerning the purchase of freely available foreign currency (hoarding). The demand for dollars required to pay imports of goods increased by US\$1,973 million with respect to 2011.

BCRA International Reserves
In millions of dollars, last day of each year
Excluding National Government Securities



In net figures Public Sector had a greater impact on monetary expansion, moving from \$32,575 million in 2011 to \$47,495 million in 2012. On the other hand, the External Sector played a significant role in such expansion, totaling \$41,086 million as opposed to \$13,315 million in 2011. In aggregate, the monetary base improved 37.9%, amounting to \$307,352 million. Total and private MT2 indicators increased by 39.2% and 36.2% y/y, respectively, 9.5 p.p. and 6.0 p.p. above the 2011 figures.

Interest rates on LEBACs and NOBACs used by the Central Bank to stabilize the money market moved slightly upwards, accumulating an annual increase of 0.7 p.p. in LEBACs (their interest rate at one year rose from 14.3% in December 2011 to 15.0% in the same month a year after).

At year-end, total peso deposits in the financial system grew 36.9% annually due to a greater dynamism in private and public sector placements (42.1% and 25.6% respectively). The growing pace of private sector deposits was fuelled by the performance of fixed-term placements denominated in Pesos which soared 51.6%, specially the wholesale segment (\$1 million or more) with an expansion of 65.5% y/y as against the 38.0% annual growth in the retail segment and the 35.8% rise in demand deposits per annum.

Interest rates moved slightly downwards during the fiscal year due to the excess of liquidity derived from measures implemented by the BCRA banning the purchase of foreign currency for hoarding purposes. This was shown in the interest rate offered by private banks for fixed-term deposits over \$1 million pesos with a maturity of 30 to 59 days (BADLAR), which had provided a yield of 18.7% in 2011 then fell 3 p.p. and closed at 15.4%. The interest rate for 30-day deposits up to a maximum amount of \$100,000 dropped 0.8 p.p. (from 14.5% to 13.7% annually).

Mention should be made that in April, the new BCRA's Charter became effective. The reform focused on granting multiple powers to the bank so that it should "promote monetary and financial stability, employment and economic development with social equity". Therefore, the BCRA introduced a set of tools which helped it comply with its various goals, particularly regarding credit policy. For that purpose,

during 2012 the BCRA adopted a strategy which basically included the implementation of two actions. 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. It continued supporting the expansion of the Bicentennial Productive Financing Program, which ended in December with a \$4,000 million disbursement. Likewise, at the beginning of July the BCRA launched a Credit Facility for Productive Investment to which financial institutions must allocate 5% of their peso deposits from the non-financial private sector. The program offered lending facilities at lower rates than those prevailing in the market with a reimbursement term of at least three years. 50% 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.

The total balance of loans granted to the private sector by the whole financial system improved 40.6% over the year. This evolution reflected mainly in greater financing for working capital (advances 53.0% and discount of documents 48.9%). Most loans previously granted within the foreign currency segment and credits linked to the Bicentennial Productive Financing Program (PFPB) and the Credit Facility for Productive Investment were channeled through these credit facilities. To a lesser extent, balances of family consumer loans also improved, showing a 41.1% increase in credit cards and 29.2% in consumer loans. Pledge loans grew by 35.0% per annum and mortgage loans 28.5%.

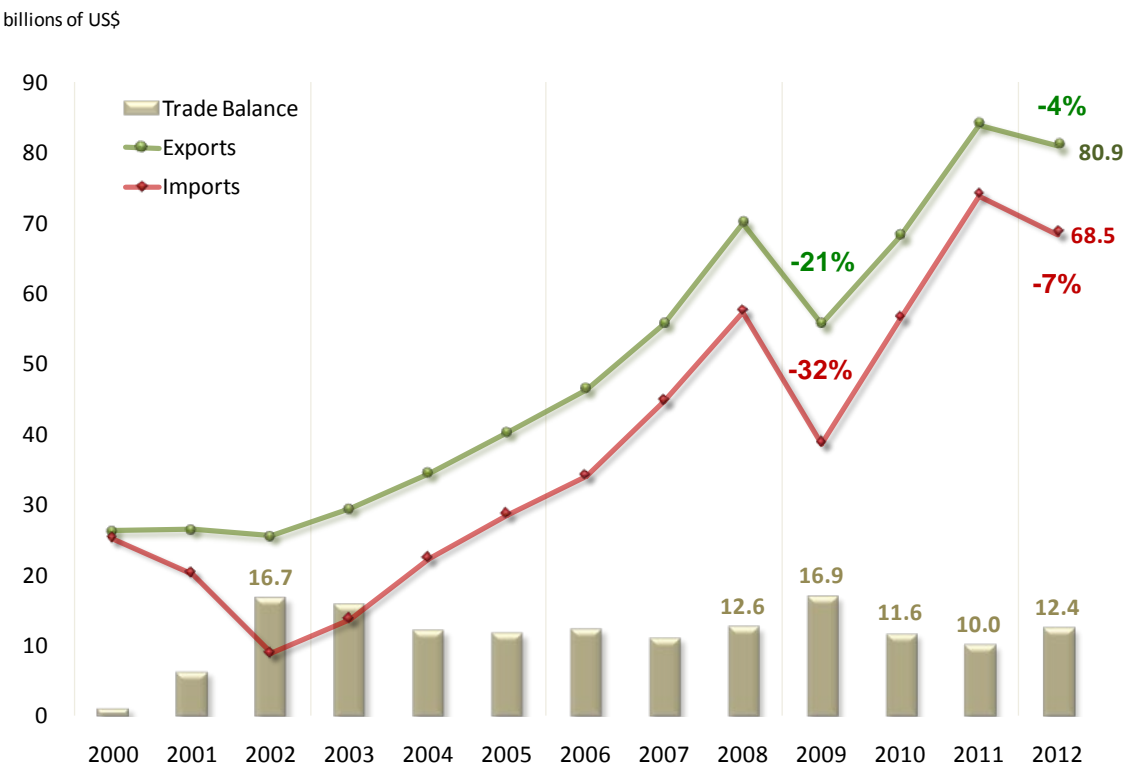
The yield on most lending rates dropped. By the end of the fiscal year, rates applicable to consumer loans, discount of unsecured documents, pledge loans and advances in checking accounts fell by 34.3%, 21.9%, 19.6% and 18.6 % per annum respectively, thus showing an overall reduction of about 4 p.p. with respect to December 2011. On the contrary, interest rates applicable to credit cards rose 34.9% annually, 1.7 p.p. over December 2011 (33.2%) and those applicable to mortgage loans grew by 17.2%, 0.7 p.p. over the previous year (16.5%).

1.4. External sector and foreign exchange market

During 2012, foreign trade transactions (both sales and purchases) contracted, as a result of greater external uncertainty, a decline in the agricultural balance and administration policies on trade. Exports fell 3.6% with respect to 2011, thus amounting to US\$80,927 million, while imports shrank 7.3%, totaling US\$68,508 million. The trade balance reached US\$12,419 million, an amount equivalent to 2.6% of GDP (2.2% in 2011)

When measured at current prices, the trade/GDP ratio (value of exports and imports of goods and services divided by GDP), reduced 4.2 p.p. to 38.0% in 2012. Throughout the last ten years, this ratio only stands above that of 2009 (37.8%).

Balance and y/y variation of imports and exports of goods
In billions of US\$



Source: INDEC

The decline in exports resulted from the contraction in sales volumes (5% y/y), since prices showed an upward trend (2% y/y). The main reasons for this behavior were a lower exportable agricultural balance, a contracted external demand, regulatory changes in the settlement of foreign currency and loss of competitiveness.

In a breakdown analysis, the biggest fall was evidenced in industrial manufactures which fell by 4.6% y/y due to lower exported volumes (5.0% y/y), mainly of base metals, non-monetary gold and air, sea and river transport vehicles.

Exports of primary goods and agricultural manufactures contracted 2.6% y/y in both cases. Primary goods were affected by a reduction in prices, while agricultural manufactures by a drop in transacted volumes. Both sectors felt the impact of the poorer soy crop; exports of oil seeds, and fats and oils dropped by 39.0% and 16.8% y/y, respectively.

Exports of fuel and energy totaled US\$6,883 million; 3.0% over 2011 as a consequence of the increase in exported volumes. The biggest drop was recorded in petroleum gas (44.6%), partially offset by the rise in crude oil exports (19.5%).

The contraction in imports was explained by the reduction in volumes (-7.0% y/y) since prices remained without significant changes (US\$68,508 million). This performance was severely affected by trade policies, lower investment and decreased industrial and agricultural activities.

In a breakdown analysis, all segments contracted; capital goods reduced by 13.4% y/y and was the most damaged segment. Restrictions and a lower demand for investment caused total purchases to fall by 16.0% y/y. The deceleration in the industrial activity negatively impacted on the purchase of intermediate goods, which contracted 8.2%, due to a reduction of 5.0% y/y in prices and a 4.0% y/y in total imports. Purchases of consumer goods (including automobiles) and of parts and accessories for capital goods shrank 7.0% and 5.0% y/y, respectively. Fuels and energy recorded the smallest drop (1.6 y/y), as a result of reduced volumes, partly due to the lower demand from the agricultural sector.

The trade balance with MERCOSUR reversed, reaching a US\$478 million surplus after the US\$2,211 million deficit recorded in 2011. The trade balance with the remaining ALADI member countries (except Bolivia) also improved; while the trade balance with the NAFTA and, specially, European Union blocs declined.

During 2012, the deficit in the trade of services grew deeper since imports swamped exports. Such higher deficit was particularly due to the deterioration in the travel account, mainly because of the lower inflow of tourists and the greater number of people traveling abroad. The higher payment of royalties and corporate services also exerted a negative effect.

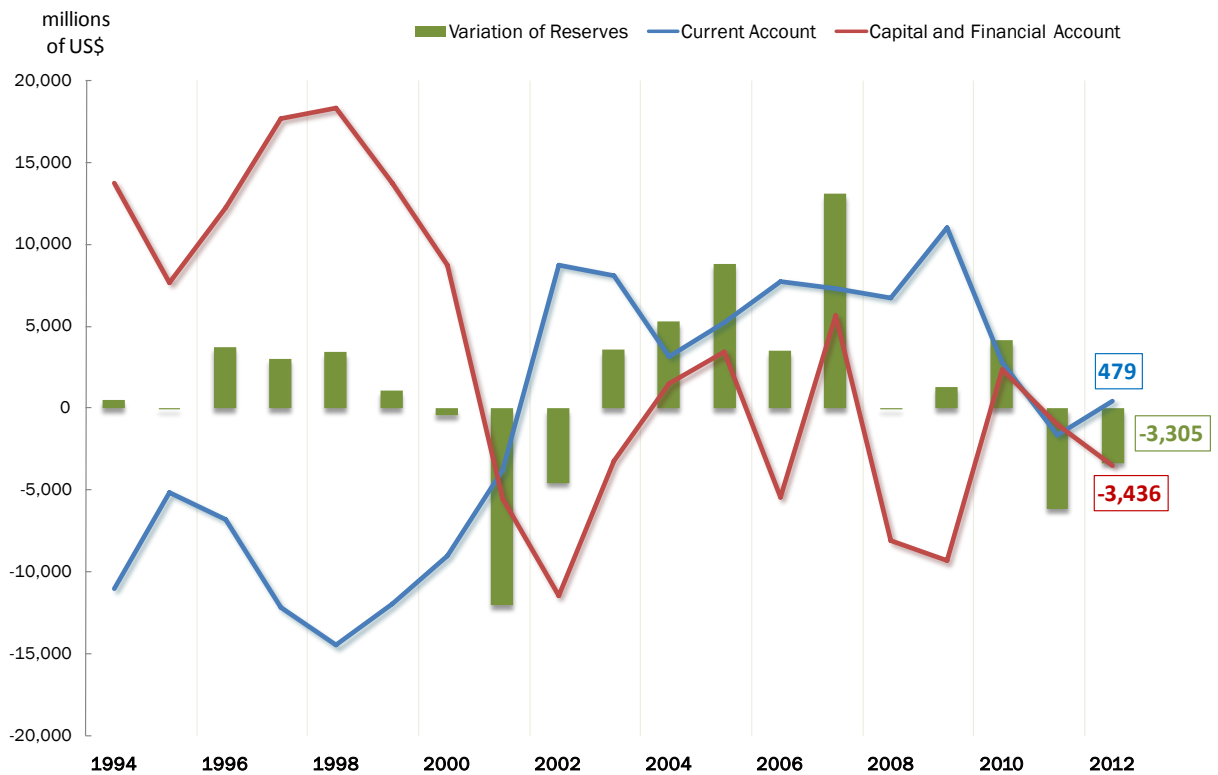
The return-on-investment account improved with respect to the previous year, even though it showed a negative balance of US\$11,295 million, thus reducing the deficit by US\$1,256 million, mainly due to lower expenditures on account of interest, profits and dividends sent abroad.

The increased trade balance of goods and the reduced deficit of the return-on-investment account caused that the current account of the balance of payments showed positive figures by the end of 2012. The balance was US\$479 million, thus reversing the US\$1,568 million deficit recorded in 2011. The surplus in the current account of the balance of payments increased 0.5 p.p. of GDP as against 2011 and amounted to 0.1%.

The capital and financial account suffered a considerable net outflow of capital for US\$3,436 million, as against US\$947 million in 2011. The implementation of restrictions on the purchase of foreign currency and on transfers abroad was a key factor to reverse the non-financial private sector performance from a US\$5,574 million deficit in 2011 to a US\$2,069 million surplus in 2012. On the contrary, the public sector (including the Central Bank) showed a US\$5,895 million deficit as a result of the settlement of loans and the payment of the GDP-linked coupon, while in 2011 it had recorded a US\$ 2,664 million surplus. The financial private sector had a US\$351 million surplus, as against US\$1,900 million in 2011.

The net effect of the balances of the current account (almost neutral) and the capital account (negative) showed that outflows far exceeded inflows of foreign currency which caused the BCRA to reduce its stock of international reserves by almost US\$3,305 million (including swap adjustments).

Balance of Payments In millions of US\$



Source: INDEC

2. Evolution of the microeconomic activity

2.1. Management policies

2.1.1. Financial policy

During 2012, the Bank's financial strategy aimed at ensuring the financing necessary to implement development policies linked to credits. Thus, at year-end, the Bank's placement of loans was higher than the System's average, optimizing costs and enabling the Bank to maintain adequate liquidity levels in a context of changing financial market scenario.

In order to achieve the goals forecast for the year, the Bank continued working and focusing on analyzing market conditions, detecting early warnings, anticipating trends and properly applying adjustment measures to policies on taking and placement of financial resources.

The Bank carried out an exhaustive follow-up of the main variables affecting the economy and, particularly, the banking sector, and made the necessary adjustments considering market conditions and its own financial needs.

Therefore, taking into account the exchange restrictions implemented by the National Government since the last quarter of 2011 and their impact on placements in foreign currency, the daily evolution of deposits, interest rates and liquidity in dollars was deeply analyzed and appropriate measures were adopted to moderate the impact of the general drain of dollars experienced by the financial market. At the end of 2012, the y/y drop in private placements represented only two-thirds of the average recorded by the whole financial system.

Likewise, the follow-up of peso liquidity levels enabled their optimization and maintenance during 2012.

At the same time, the Bank closely observed the behavior of market interest rates, which showed opposite trends in the first and second half of the year. It deeply analyzed the spread rate comparing its own deposit rates with those of the rest of the System, considering amounts and terms of deposits as well as the evolution of retail and wholesale placements.



Accordingly and as a consequence of the improvement in funding cost, the Bank made a careful monitoring on margin between lending and borrowing rates, ensuring that it keeps the necessary level to obtain the estimated financial income.

In order to reduce any inherent risks, special attention was paid to the evolution of deposit concentration.

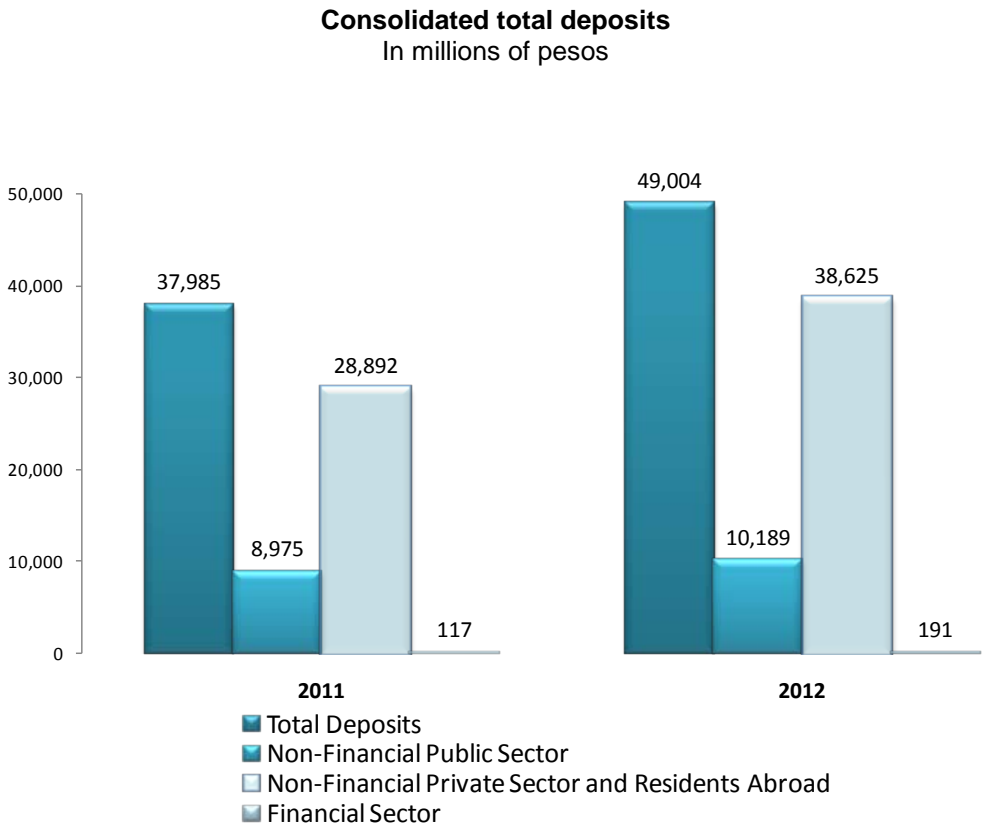
Moreover, the Bank has deepened and diversified the analysis of departures from its business plan projections, so it may know their causes and improve the financial planning process.

• Evolution of deposits

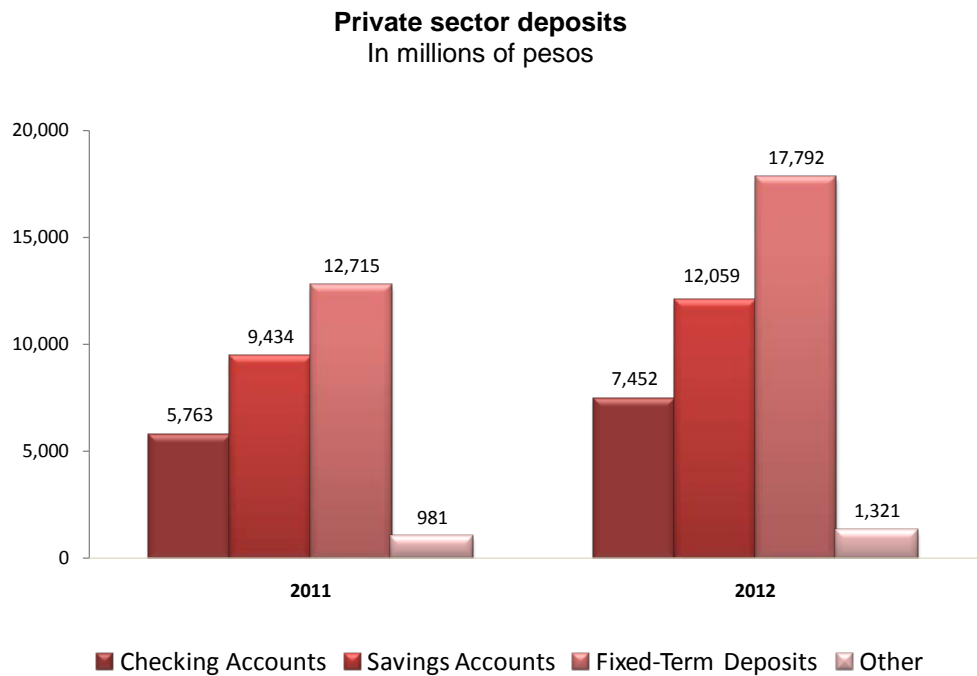
During 2012, total deposits with the Bank showed a 29.0% y/y increase due to the expansion of placements in local currency.

EVOLUTION OF DEPOSITS In millions of \$				
Description	2011	2012	Variation	
			Nominal	%
Total Deposits	37,984.8	49,004.0	11,019.1	29.0%
Non-Financial Puclic Sector	8,975.0	10,188.7	1,213.7	13.5%
Non-Financial Private Sector and Residents Abroad	28,892.4	38,624.7	9,732.3	33.7%
Checking Accounts	5,763.3	7,452.4	1,689.1	29.3%
Savings Accounts	9,433.6	12,059.3	2,625.7	27.8%
Fixed-Term Deposits	12,714.5	17,791.7	5,077.2	39.9%
Other	981.0	1,321.3	340.3	34.7%
Financial Sector	117.4	190.6	73.2	62.3%

With respect to distribution by sectors and confirming the trends of previous years, the Bank kept being less dependent on public sector deposits, which accounted for 23.6% in 2011 and 20.8% in 2012, because of a lower growth rate in comparison with total deposits (13.5% as against 29.0% y/y).



The increase in private sector deposits was higher than in total deposits, mainly due to the upward trend of fixed-term deposits. At the end of 2012, the variation amounted to \$9,732 million (33.7% y/y), more than half of such figure derives from the increase in fixed-term deposits (\$5,077 million, 39.9% y/y) and the remaining amount corresponds to checking accounts (\$1,689 million, 29.3% y/y) and savings accounts (\$2,626 million, 27.8% y/y).

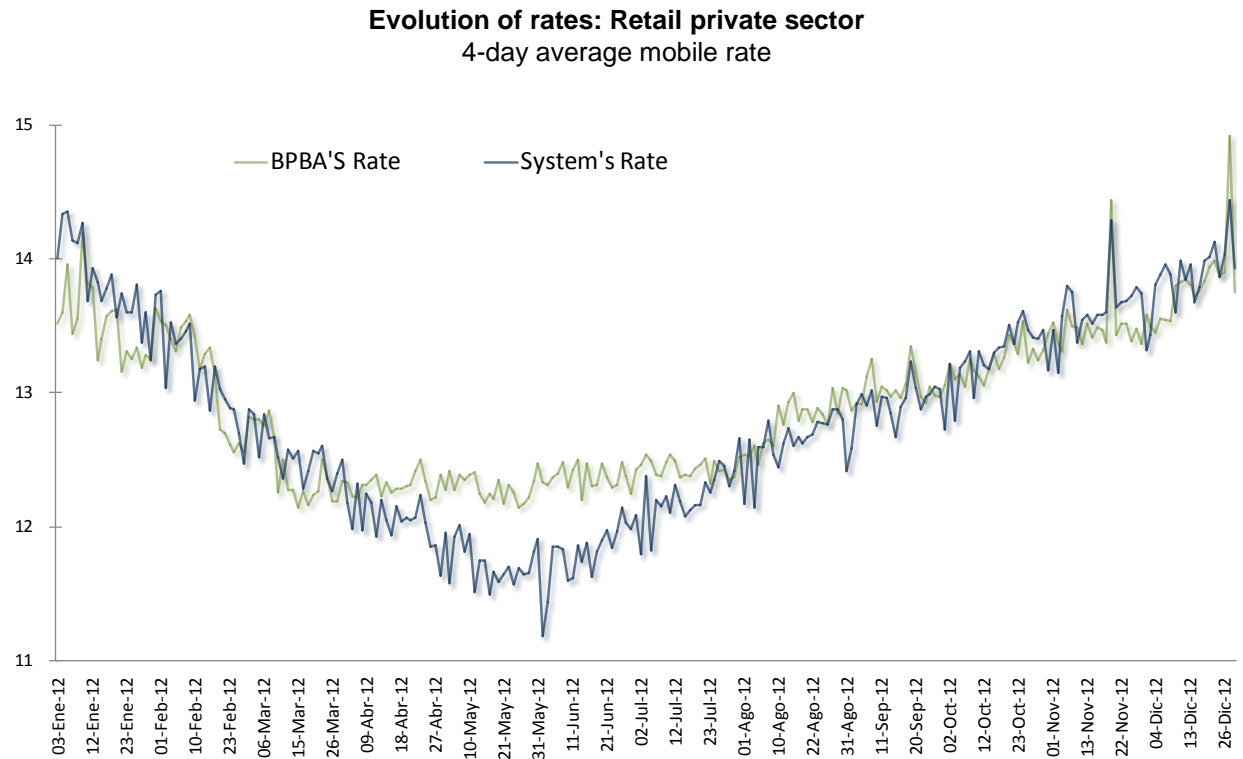


When comparing the Bank and the whole System, deposit evolution was quite different although the final result was similar. The Bank's deposits denominated in local currency grew at a slight pace, basically due to a lower increase in placements from the public sector, while private sector deposits were more dynamic. The Bank's total deposits denominated in foreign currency reduced less than those of the whole system, showing a slight decline in deposits from the private sector and a modest rise in deposits from the public sector as against the strong increase in these placements experienced by the banking system.

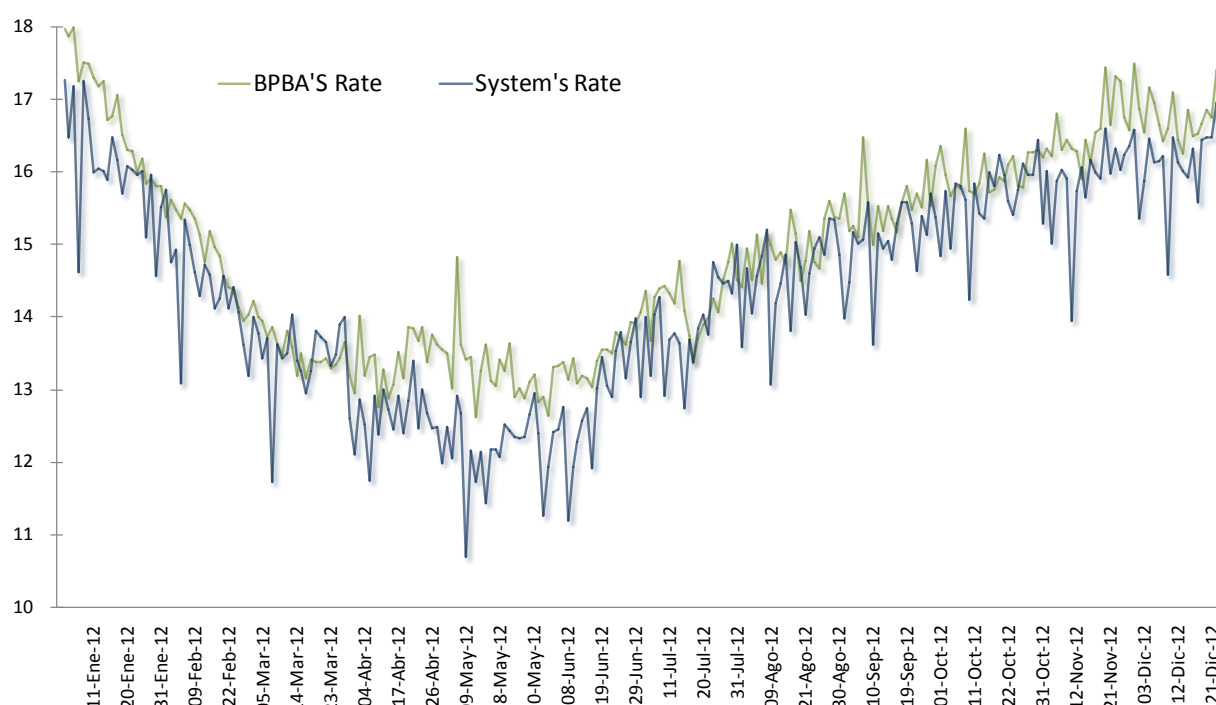
At year-end, the Bank's share in the Financial System in terms of peso and dollar deposits from the private sector grew from 8.8% to 9.0% maintaining the third place in the ranking. The Bank's market share increased from 9.3% to 9.5% with respect to investments and fixed-term deposits, and declined from 6.9% to 6.2% as regards the public sector segment, remaining second in the ranking. Thus, in terms of total deposits, the market share remained invariable (8.2%), and the Bank kept the second place in the ranking below Banco de la Nación Argentina.

• **Evolution of borrowing interest rates**

Interest rates offered by the Bank on retail and wholesale fixed-term deposits from the private sector have developed similarly to those offered by the banking system, showing a downward trend until June, and then a gradually upward trend without reaching the 2011 levels.



Evolution of rates: Wholesale private sector
4-day average mobile rate



In order to obtain better funding costs, the Bank negotiated with international banks new terms and conditions for the structured transactions which expired in May, 2012, renewing them for a total amount of US\$120 million.

Likewise, the purchase/sale of the Bank's global government securities portfolio totaled \$11,115 million, optimizing the risk-yield ratio. Management of third party structured products and government securities portfolio amounted to \$654 million.

The Bank participated in the issuance, placement and settlement of the Province of Buenos Aires Public Debt Issuance Program (Dollar-linked Bonds) and in the placement and settlement of the Province of Buenos Aires Treasury Bills.

Moreover, the Bank negotiated and perfected the assignment of rights on the debt owed by Lehman Brothers on account of a structured transaction for US\$7 million outstanding at the date the bankruptcy was filled.

2.1.2. Commercial policy

As stated in items 1.3 and 2.1.1 above, commercial actions were oriented to loan, operations and market segments resulting in a greater volume of transactions and higher income from financial services, such as:

- An annual 31.7% increase in income from services generated at the local level amounted to \$2,324 million, out of which, \$2,155 million accounted for services to the private sector, in line with higher consumption levels and a greater number of loans with fees and commissions adjusted to those prevailing in the market. Income from fees charged by the Bank's foreign offices in Sao Paulo and Montevideo also contributed on account of import and export transactions as well as securities management.
- An annual 33.0% increase in domestic loans to individuals and private sector companies totaled approximately \$26,730 million. Corporate, consumer and mortgage loans were granted for \$20,150 million, \$5,570 million and \$1,010 million, respectively.

At the end of the fiscal year, private sector domestic loan portfolio grew by 37.6%, totaling \$26,422 million. The balance growth (\$7,223 million) was mainly due to the rise in loans to Individuals (\$4,800 million) and, to a lesser extent, to Corporations (\$2,300 million).

Total loans to the non-financial private sector performed better than the financial system, with a y/y growing pace of 36.0%, surpassing by 5 p.p. the pace recorded by the whole system, thus participation in the total amount increased by 6.9%.

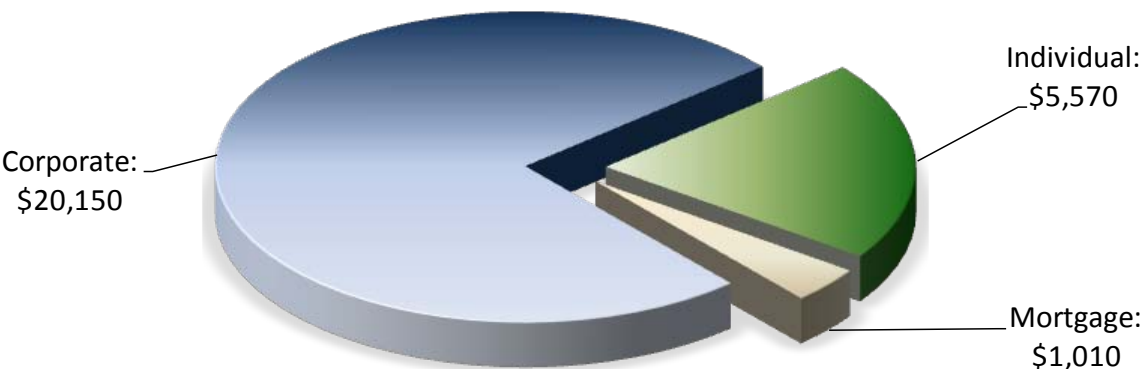
Balances of the non-financial sector lending portfolio of the Bank's foreign offices in Sao Paulo and Montevideo totaled US\$14,100 million (pre-export financing, 64.1%; financing of exports, 33.7%; and import letters of credit, 2.2%) and US\$5,300 million (invested capital, 67.8%; discount of documents, 31.9%; and financing of imports, 0.3%), respectively.

2.1.2.1. Loan Activity

The Bank granted domestic loans for \$26,730 million during 2012, \$6,630 million above the amount lent in 2011. Seventy five per cent of loans were destined to the corporate sector for \$20,150 million, out of which 65% was aimed at business development.

Breakdown of Loans in 2012
Private Sector – In millions of \$

Total Loans: \$26,730



2.1.2.1.1. Loans to Companies

In 2012, the Bank implemented commercial actions to finance the purchase of capital goods of those companies with a productive capacity in line with the business cycle. Investment facilities also improved through a credit product readjustment for the key segments of the economy, and loans to the manufacturing industry were granted at an 84-month repayment term and to the remaining productive sectors at a 60- month term.

The adjustments to investment facilities aimed at improving the quality of processes and minimizing the environmental impact of external negative factors. In pursuing this goal, the following products were developed:

- Financing of environmental protection and clean production (acquisition / construction of capital goods)
- Acquisition of technology to minimize the environmental impact
- Financing of companies' environmental audits
- Consulting services and technical advise, in compliance with ISO 14000 standards

The Bank developed its activities according to the BCRA's credit rules. Loans granted under the "Productive Investment Credit Facility" exceeded the amount of \$1,900 million, thus easily surpassing the goal of \$1,500 million stated by the BCRA in its Communication 5319, dated July 5, 2012. Additionally, as regards variable interest rates, agreements were executed for a term of up to 60 months.

With respect to the agricultural sector, credit conditions of the "Retention of grains and oil seeds" facility were tightened reducing the terms, but at the same time new financing for summer and winter crops was offered; thus the goals related to the granting of loans included in the Business Plan have been largely fulfilled.

Likewise, 16 agreements with suppliers of goods were signed, and during the second half of the year, other 10 new agreements were entered into with manufacturers of machinery and other capital goods. In all these cases, there was always a single goal: to maximize the customer portfolio including all



productive activity sectors, which enables the Bank to diversify its portfolio. One of the strategies adopted to reach this goal included the use of information gathered from various fairs where the Bank had an active participation, generating businesses that may increase the industrial and agricultural portfolio.

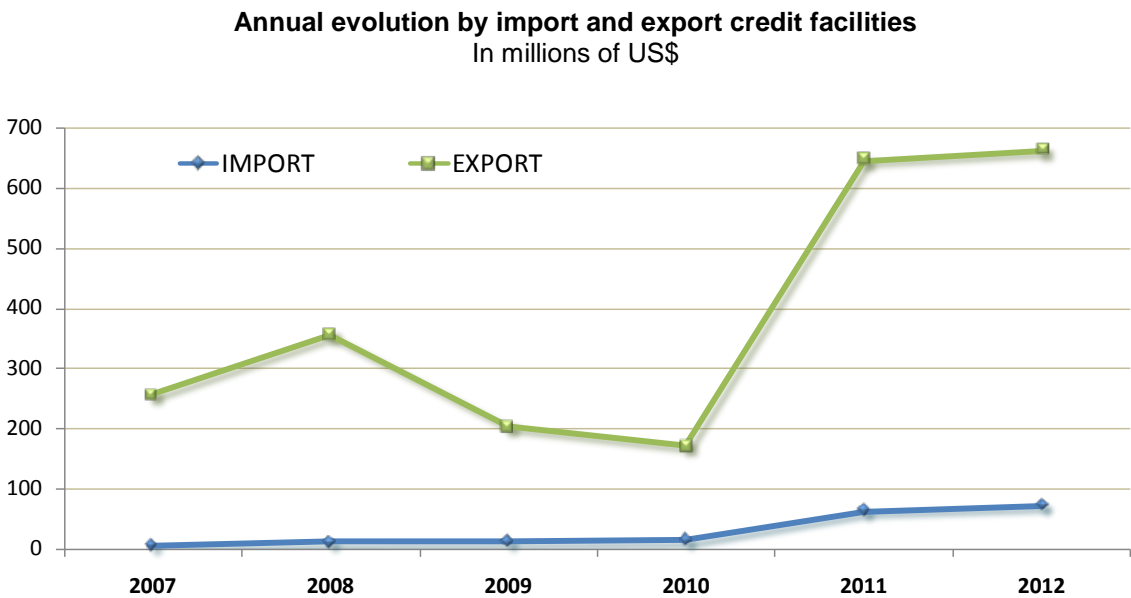
Different credit facilities were available during 2012 and, though they were not oriented to productive investment, many of them were necessary for the development and evolution of companies and the diversification of risks. Specifically, the Bank offered to its customers several loans destined to holders of Bonds for the settlement of Province of Buenos Aires debts expiring in 2014 (Executive Order No. 557/12) and original holders of Bonds for the regularization of non-financial obligations (Executive Order No. 160/11). This situation enabled provincial government's creditors and bondholders to have access to financing, and, at the same time, generate liquidity from instruments which at the date of these agreements were not matured.

The “financing program for companies involved in strategic value chains of the province of Buenos Aires” is expected to provide a more detailed scenario of the microeconomy of those companies, as well as the understanding of their strategic circuits. So, companies will be able to expand their present businesses and generate new ones after intensifying the interactions among companies, suppliers, vendors and customers.

The Bank offered temporary financing assistance to companies to help them meet seasonal expenditures, such as semi-annual bonus, in order to reduce possible negative effects on liquidity needs during the normal performance of their business cycle.

The Bank also dealt with several solutions posed by the Government of the Province of Buenos Aires to address various problems. The Bank not only boosted the use of credit tools at a subsidized rate destined to industrial, agricultural and services sectors, but also designed methods and products to recover from social emergency situations which derived, for example, from the unexpected impact of meteorological phenomena on the provincial territory. For these cases, the Bank offered loans with attractive conditions (terms and interest rates) in order to restore everyday life of individuals and the development of commercial activities throughout areas of the Greater Buenos Aires and the interior of the province. Mentioned should also be made of the funds granted by the Bank to promote trade and local services in provincial municipalities.

During the year, the Bank lent US\$731 million under import and export credit facilities, recording a 3.5% increase with respect to 2011. They comprised 719 Export Credit transactions for US\$660.3 million (out of this amount, US\$650.1 million corresponded to 648 Pre-Export Financing), and 451 Import Financing transactions for US\$70.6 million. This showed a high concentration of financing in dollars which amounted to US\$59.6 million



• **Agricultural Sector**

In 2012, the Bank continued to provide 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 Production of Cattle and Meat (investment and associated working capital), the Financing Program for the Dairy Sector (investment and



working capital), the *Fuerza Productiva* Program - Tranche III (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 wheat, corn, sunflower, milk and meat. These programs and facilities offered subsidized rates making access to financing easier for producers. Moreover, special agreements subscribed under the Procampo card with leading input suppliers allowed producers to benefit from 0% rates for terms of up to 270 days.

The favorable turnover of this sector was evidenced by the placement of \$5,495 million, equivalent to a 22.1% y/y increase. Out of this amount, \$1,050 million was granted under programs and facilities at reduced and subsidized interest rates, such as:

- Financing Program for the production of Cattle and Meat: rate subsidized by the National Ministry of Agriculture, Livestock and Fisheries (367 transactions for \$156 million).
- Financing Program for the Dairy Sector: rate subsidized by the National Ministry of Agriculture, Livestock and Fisheries (61 transactions for \$17 million).
- Working Capital for the production of milk and meat: rate subsidized by the National Ministry of Agriculture, Livestock and Fisheries (853 transactions for \$96 million).
- Working Capital for the production of wheat, corn and sunflower: rate subsidized by the National Ministry of Agriculture, Livestock and Fisheries. (1,377 transactions for \$183 million).
- Procampo Card: under the management of the Agricultural Banking area, it recorded a 36.2% rise in consumption with respect to the previous year and financed \$461 million (against \$339 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 delinquency rate for these facilities to the agricultural sector was just 0.28% 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 \$413 million may be used in 2013.

- **Industrial, commercial and services SMEs and MiSMEs**

During 2012, the Bank contacted over 600 companies, visited the premises of about 300 businesses and assigned credit ratings to more than 280 new SMEs.

The number of projects for new investments and expansion of installed capacity submitted under Tranche III of the *Fuerza Productiva* Program totaled 114 for \$161.8 million, out of which 46 loans amounting to \$60 million were finally granted. The placement of loans for productive investment amounted to \$320 million. With regard to loans destined to development, working capital and investment for SMEs, the Bank took part in all bids called for by the Secretariat for Small and Medium Enterprises and Regional Development, in order to offer companies competitive financial costs. Additionally, the Bank conducted special campaigns and developed several tools that promoted the discount of third-party checks, a lending facility greatly demanded by SMEs.

Measures were taken for the formation and training of new Business Officers to be integrated with Business Management teams in compliance with the pertinent action guidelines for the SME Banking area. The achievement of almost all commercial and lending goals helped consolidate the business model started in late 2009. SME Banking has become a channel that attracts an increasing number of SMEs to operate with the Bank.

- **Corporate Banking**

The year 2012 was characterized by a strong demand for credit from corporate customers in view of the limited supply of transactions in US dollars by some competitor banks. This situation led to a significant increase in the average number of loans. The total amount lent was equivalent to \$6,236 million, accounting for a 21.3% expansion over the previous year when \$5,141 million had been loaned. Even though closing balances at December 31, 2012 and 2011 are similar, their composition differs since transactions in US dollars represented 53% of total loans in 2012 as against 71% a year earlier.

- **Micro-enterprises**

With the creation of Provincia Microempresas S.A. in mid-2008, the Bank adhered to the regulations on micro-credits issued by the Argentine Central Bank contemplating the inclusion of economic actors and



society segments that, due to their informal conditions or unfavorable records regarding solvency and/or repayment capacity, have restricted access to credits and services in the banking system.

Since the launching of the microfinance program (PROME S.A.) in early 2009, a total of 49,514 loans for \$392.8 million has been granted. In 2012, the number of loans was 22,220 for \$215.6 million, accounting for a 91.1% y/y rise. With the opening of two new branches in the cities of Salto and Trenque Launquen, the program is now operative in 63 of the Bank's branches and has 270 specially trained professionals who provide advice and assistance.

2.1.2.1.2. Loans to Individuals

In 2012, about \$6,500 million was lent to individuals, i.e. a 38.5% y/y increase, under highly competitive conditions, in a context in which the maximum amount for consumer loans was generally raised to \$200,000.

In order to intensify bankarization actions, in January the Bank decided to grant consumer loans of up to \$40,000 to beneficiaries of the ANSeS.

With regard to automobile loans, an agreement was subscribed with Fiat Auto Argentina S.A. for the purchase of cars by national, provincial and municipal civil servants.

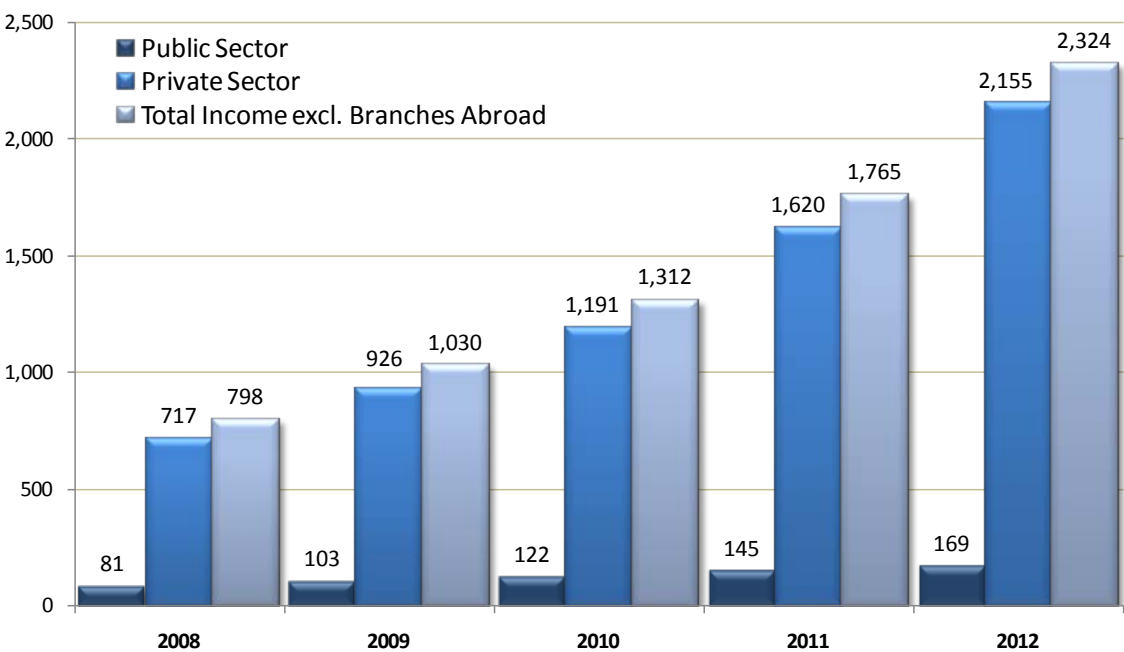
The most significant variations were recorded by the Civil servants and beneficiaries of the Social Security Institute of the Province of Buenos Aires (IPS) caption with an increase of \$1,780 million, followed by all mortgage loans (including “Tu Casa”, subsidized programs, and the residential home facility) for \$983 million, and credit cards for \$913 million. Likewise, within the Individuals caption, loans to Civil servants, Private sector employees, and Employees of the Grupo Banco Provincia also had a sound performance with \$450 million.

2.1.2.2. Service management and results

- **Income from Services**

In 2012, income from private sector services totaled \$2,155 million, accounting for a 33% y/y increase, equivalent to \$535 million more than a year earlier.

Evolution of Income from Services
(in millions of pesos)



About 52% of income from private sector services was contributed by means of payment, followed by income derived from loans granted (18%), checking and savings accounts (15%) and other transactional and investment instruments (15%).

Actions taken during 2012 included the establishment of salary accounts and products for employees from the SME and Corporate channels, which enabled the opening of 2,932 salary accounts during the second half of the year.

The dynamism in electronic means of payment resulted from the development of new products and the putting in place of commercial actions (promotions, discounts and payment in interest-free installments) on particularly attractive categories, which helped increase their relative share in income from private sector services.

Operations by the Sao Paulo branch generated commission income for US\$60,109, which represented a slight 0.39% y/y decline. The sectors that most contributed to income were Exports (55% or US\$33,150) and Imports (41% or US\$24,921).

Commission income of the Montevideo branch totaled US\$797,942, a 69% y/y reduction resulting from a lower demand for Trading transactions. The administration of securities generated US\$422,417, accounting for 53% of total commissions.

- **Electronic means of payment**

Purchases with credit cards grew about 45% in 2012 with respect to 2011, mainly boosted by promotional campaigns designed for special occasions and involving different actions. Products related to Visa and MasterCard credit cards were concomitantly launched.

In the case of individuals, new Visa credit cards were pre-embossed and 42,000 cards were issued for civil servants and another 35,000 for private sector employees. Moreover, almost 100,000 MasterCard credit cards were issued for public sector staff.

In accordance with the benefit program for retirees and pensioners of the ANSeS, 28,000 credit cards were pre-embossed for those meeting the minimum income requirements and having a favorable rating to receive this product.

With the purpose of offering more benefits and gaining the loyalty of higher-income civil servants, special campaigns were created for the provision of courtesy credit cards to provincial public administration officers.

Formalities for the granting of courtesy credit cards targeted at the premium segment were made more flexible and two campaigns were designed for the establishment of 2,500 new Visa Signature accounts and 1,000 MasterCard Black accounts with special benefits.

Direct marketing actions to increase purchase volumes involved 201,000 Visa accounts and 12,500 members and led to substantial overall improvements. The number of Visa credit cards issued by the Bank in 2012 rose by about 15%. Likewise, valid credit cards increased nearly 12% and active credit cards went up by 10%. For illustrative purposes, 40% of total Visa purchases in the interior cities of the Province of Buenos Aires were paid for with Banco Provincia cards.

With respect to debit cards, 12% of total transactions were made with cards from the Bank, as also were 15% of purchases within the System. The Bank's share in total active cards is 19%.

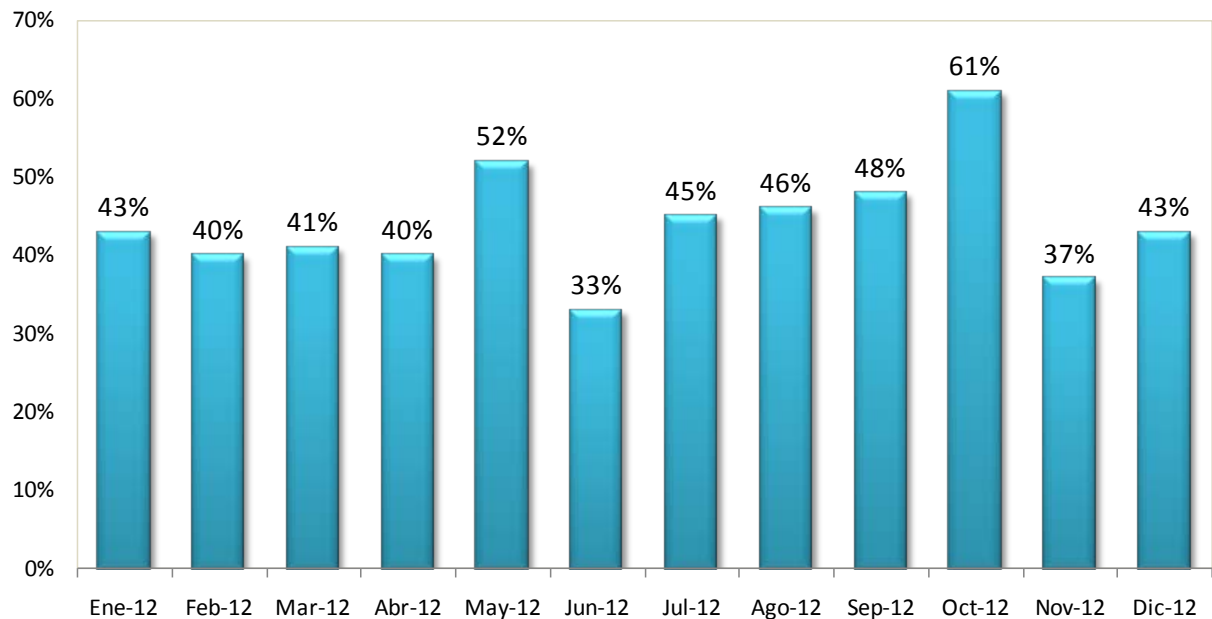
In the Corporate and SME segment, the offering of credit card packages was authorized. The Bank maintained its 16% participation within the System in terms of corporate cards, which accounted for 6.6% of total consumption with more than 30,000 valid accounts.

With *Provincia Selección*, a reduced cost product, the Bank targeted at employees of credit-related companies from the private sector.

Approval was also given to the *Adelantos de Haberes* product available for public and private sector, IPS and Province of Buenos Aires Police Force salary accounts. Advances on these accounts will be of up to \$6,000 and may not exceed 20% of net salary. The launching of this product was based on priority factors such as building customer loyalty and boosting the use of debit cards and Internet banking in order to maximize income from fees and commissions.

Another product implemented by the Bank was the *Consorcio de Propietarios* checking account. It was launched after considering the high market potentiality (not including the province of Buenos Aires) entailed by the 35,000 proprietors' bureaus and the 4,400 proprietors' bureau administrators existing in the City of Buenos Aires, and the possibility of expanding its *Cuenta Corriente Persona Jurídica* product by 50%.

Total purchases with credit cards
% y/y monthly variation



- **Foreign trade**

In 2012, the focus remained on Internal and External Customer Service Quality. Actions taken in this regard include:

- Information Technology: Final implementation of the Foreign Trade Accounting System in the Regional Units of La Plata (January 2) and Bahía Blanca (February 7).
- Regionalization of Foreign Trade Services: Consolidation of the commercial team through Regional Units (Mar del Plata, Bahía Blanca, Junín and La Plata) and Business referents, favoring the provision of assistance and advice in the interior cities of the Province as well in the Greater Buenos Aires and the City of Buenos Aires. The regionalization of Information Bases, combined with the flexibilization of commissions and interest rates, boosted the placement of assistance, product and service facilities, accompanying customers in every stage of international trade.

These actions translated into an 18.6% y/y increase in income from foreign trade services.

2.1.3. Credit risk policy

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.

In 2012, the Credit Assessment Management kept on developing and applying credit analysis to assess the Bank's borrowers. Upon analyzing 9,865 cases, amounts disbursed reached \$13,310 million (10.6% over the previous year). The support for the assessment of investment projects in the Province of Buenos Aires totaled \$1,448 million and comprised 2,705 transactions carried out mainly by year-end.

The scoring system was used for 579,333 applications and allowed Business Units to operate in this consumption segment in a decentralized and efficient manner. Only 1.4% of total applications had to be referred to a higher authority for resolution.

2.1.4. Loan recovery policy

In 2012, the Bank actively pursued its out-of-court recovery program for loans exceeding their early delinquency period. For the purpose of increasing the number of regularizations, actions involved in every stage of loan recovery management were intensified.

A general loan recovery program also remained in place. Priority was given to one-time settlements of non-performing loans and, secondarily, to their refinancing in the shortest possible term.

Several special plans for highly delinquent loans were updated. They applied to customers with debts of up to \$2 million that, at December 31, 2010, were classified as uncollectible and removed from assets by application of allowances as stipulated by the BCRA's accounting standards, and to customers entailing such potential risk that, at such date, were classified at high risk of insolvency and uncollectible.

Under the out-of-court recovery program for loans exceeding their early delinquency period, 7,990 cases were settled during the year for a total amount of \$126 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

As a State Provincial Bank, management actions focused on addressing and satisfying the operational needs of the Buenos Aires Public Administration.

To that end, special emphasis was put on the consolidation of the Bank's relations with provincial municipalities. Besides customized visits to different districts of the Greater Buenos Aires, the 7 meetings organized in Regional Centers from the interior of the Province were attended by representatives of 93 municipalities. These meetings –especially intended for municipal accountants and Treasury Secretaries, where various mayors, managers of first-tier branches and the pertinent regional manager were also present– centered on current lending facilities and collection and payment products and services. After due analysis and consideration, all inquiries and requests were answered and discussed with each municipality.

These actions were very useful to strengthen relations with municipalities and agree on the financing terms for infrastructure works. Thus, 38 new loan applications for \$520 million were received, totaling 62 requests for \$758 million since the launching of the facility in June 2011. At the close of the 2012 financial statements, 28 transactions amounting to \$352 million had been settled, and the remaining 34 loan applications were at different stages of the review and analysis process by the pertinent authorities.

With respect to collection and payment services offered at these meetings, 80 new agreements were subscribed.

In line with Provincial Administration policies, which translated into alternative payment instruments, administrative and accounting rules and tax amendments included in the Budget Law, the relationship with central organizations became stronger, consolidating the Bank's role as financial agent of the Province.

Further progress was made on the arrangement of agreements for the implementation of alternative collection channels with the public and private sectors. Due to the great working synergy between the Bank and Provincia Pagos, new collection agencies were established in many municipalities and/or chambers of commerce and cooperatives of the interior. This action was aimed at reducing crowd flow to treasury offices and lightening the operative workload of Business Units so as to provide better Bank-wide customer services.

The Bank launched, together with Provincia Pagos, a customer service system in sparsely populated locations and established a pilot agency in Arroyo Dulce. In accordance with the traditional social role of the Bank, banking services could thus be extended to small towns at lower operative costs.

2.1.6. Budgetary policy

The Bank's administrative expenses for 2012 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 bankarization 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 installation of more ATMs, the renewal of treasury-related devices and the continued expansion of the Bank’s IT infrastructure. Proceeding with many building renovations to modernize certain Business Units was also approved.

Other expenses were planned 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 institutional advertising, armored transportation, security, cleaning, maintenance and repair of buildings and premises, reconditioning of safety goods, and software update.

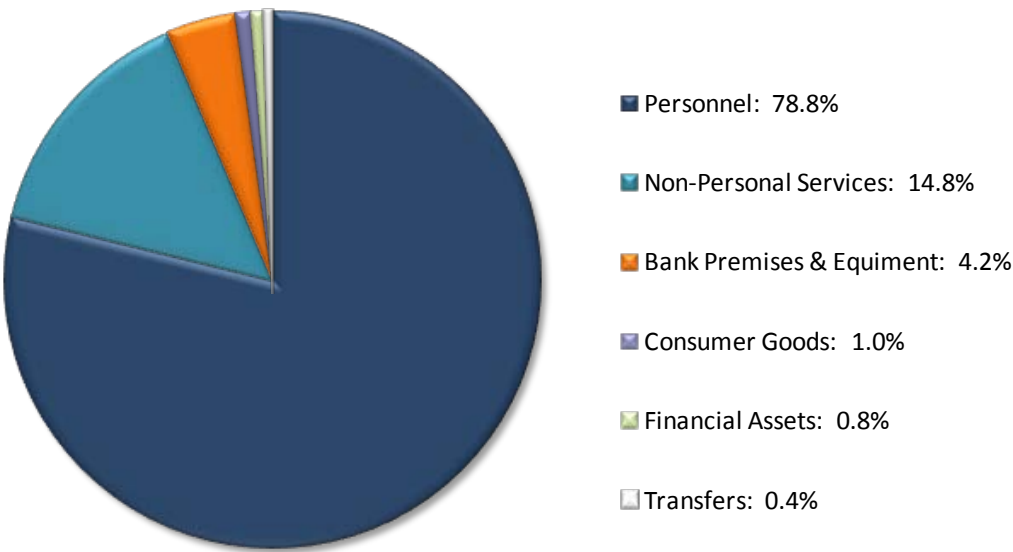
The Bank’s Expenditure and Revenue Budget for the 2012 fiscal year, included in Provincial General Budget Law No. 14331, was fixed at \$4,959.4 million, contemplating a balanced amount of budgeted expenses and the required resources to meet them.

Revenue estimates were calculated on (net) Income from Financial, Services and Foreign Branches Transactions, and Expenditure estimates were budgeted ensuring the Bank’s self-financing and capitalization on the basis of 10,597 employees.

Without affecting total budgeted amount, adjustments were made to the distribution of expenditure for optimization purposes, streamlining the allocation of resources. At year end, Expenditure broke down as follows: Personnel expenses, \$3,647.6 million; Non-personal services, \$742.7 million; Bank premises and equipment, \$451.9 million, Consumer goods, \$61 million; Financial assets, \$36.8 million and Transfers, \$19.4 million.

In this regard, the difference between planned and actual Expenditure arose from a smaller investment of \$257.9 million in Bank premises and equipment and lower spending of \$59.5 million on Non-personal services.

Breakdown of Expenditure – Year 2012



2.1.7. Human Resources Policy

During the year, the Bank kept on fostering the development of staff potential through 15,938 actions on training.

Under the Staff Development Model, the Bank organized 3 Level 1, 2 Level 2 and 2 Level 3 workshops, attended by 583 employees from branches and central areas.

Out of the 142 officers who participated in Postgraduate courses, 13 attended the Banking Management Program run by AEBA Consulting firm, with certification of the Universidad Tecnológica Nacional; 45 were trained at the Universidad de San Andrés; 35 at the Universidad Austral; 24 at the Universidad Torcuato Di Tella, and 25 at the ESEADE.



The Bank implemented two e-learning programs: Money Laundering with the participation of 2,267 employees and a TRX 9000 training course taken by 4,253 employees.

Among others, the following courses were developed: induction of new employees, marketing, money laundering, customer attraction, operational risk, software applications, subjects specific to the internal banking career and security measures.

The Bank formulated an effective communications policy aimed at consolidating the institutional image, motivating employees and reducing the effects of informal contact. It included: 156 intranet announcements, 557 e-mail communications and 12 issues of the "El Pulso del Provincia" electronic institutional report. The "Provincia TV Gerencial" platform was renewed and new functionalities were implemented in order to promote communication among 1,800 users.

In order to encourage the idea of internal customer service within the organization, a new intranet communication channel called "GPs" was created. Its main purpose is to offer employees an enquiry tool with useful and user-friendly information about the relation between the Bank and its members. This portal contains "Mi Espacio", a virtual space for making inquiries and updating personal information of each employee.

With regard to the policies established by the Health Area, the Bank kept on implementing medical examinations to diagnose the pathological values detected in 80 Information Systems Management and General Treasury's employees who participated in the Risk Factor Detection Program. Within the Preventive Medicine Program for the Bank's Chauffeurs, the 52 employees examined were physically fit to drive vehicles.

The Bank continued organizing Pre-Retirement Workshops with the participation of 190 future retirees who expressed their satisfaction in participating in this activity.

During 2012, 15 meetings were held with relatives and co-workers of deceased employees who were rendering services to the institution.

In response to the Labor Inclusion Process contained in the Legal Regulation for People with Disabilities (Law No.10592), the Bank provided functional support to the 27 disabled employees hired in 2012 and to their supervisors and co-workers.

Likewise, certain measures were adopted to reduce the accumulated balance of unused annual leave. In this regard, employees shall not accumulate more than 6 leaves and shall use their annual leave during the year.

In 2012, an active program was implemented to reduce employee absence in the workplace.

In compliance with internal regulations, the Bank terminated the employment relationship of 540 employees who were entitled to retirement benefits. Furthermore, 811 new employees joined the Bank and 946 temporary employees were included as permanent staff.

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 2012 through a set of IT tools, among which the following can be mentioned:

- Implementation of the Bank's own Internet Banking System, offering customers new functionalities.
- Development of the Bank's Corporate Banking solution based on a multichannel architecture.
- Creation of a new website for different mobile devices with a modern and dynamic internet image.
- Inclusion in the SUR system of all branches with safe deposit boxes.
- Universal Child Allowance; reengineering of the system used for registration of accounts/cards and for credit and refund of unpaid amounts.
- Establishment of social security accounts for social plans.
- Advances on Wage Payments through ATMs.
- Updating of the Bank's systems in order to comply with General Resolutions Nos. 3378 and 3379 issued by the Argentine Internal Revenue Service (*Administración Federal de Ingresos Públicos- AFIP*).
- Automatic refinancing of loans in the SUR system, offering an option for refinancing products automatically.
- Automation of follow-up and warning control- Preventor system integrated into the SUR system (on line) and the Executive Information System, enabling the Bank to have an automatic control of daily warnings based on user-defined guidelines.
- Mandatory re-evaluation of commercial debtors.

- Implementation of a general exchange position system.
- Reengineering of SUR-Link data bases as regards debit cards.
- Optimization of the Debtor's Classification Reporting System (Communication "A" 2180 of the BCRA).
- Development of an accounting integration system in the SUR platform.
- Migration of the SWIFT system to a new platform and updating of its software components.
- New functionalities on tablets.
- Interbanking technological improvements.
- Implementation of smart devices with check capture in ATMs.
- Enhancements in the Bank's single customer base.
- Placement of Province of Buenos Aires Treasury Bills.
- Design of a new system for evaluating employees' performance.
- Creation of the GPs portal.
- Development of the META 4- training and absence control system.
- Development of system under the new platform, facilitating system technical documentation, code standardization and routine reuse: Delinquent debtors and barred companies, generalized salary accounts, Information Assets and Control of advertising invoices.
- New form for fixed-term deposits in accordance with BCRA's regulations.
- Implementation of a system for managing the remarks made by the auditing department.
- Enhanced integration between mainframe and open systems.
- Migration of all users of central areas from the BAPRO to the CCBA domain, covering 1,627 workstations.
- Replacement of 3490 data backup cartridges for 3592 cartridges. This task meant the migration of 63,191 cartridges, containing 1998-2011 historical data.
- New electric wiring for the Data Processing Center's equipment which is now supported by a new power line with redundant UPSs. This work will continue in 2013 with a second power line, enabling full redundancy.
- Installation of 129 routers in branches, 63 UPSs, a new telephone exchange in the Guanahani premises and migration of 882 ATMs to IP technology.
- Refurbishment of 16 branches.
- Approval of project and tender specifications for the new WAN network, design of new routing schemes, encryption and updating of equipment in the current network for setting up the new WAN network.
- Design of architecture to communicate ATMs through TCP/IP. Neutral ATM pilot testing through TCP/IP.
- Updating of the security architecture and routing of the WAN network.
- Migration of central areas to Active Directory.
- Optimization of Batch/on line processes and programs.
- Completion of the Integral Continuity Plan, including 14 new service plans, totaling 34 service plans and 3 infrastructure plans at the end of the year.
- Incorporation of the Technological Innovation group.

2.1.9. Risk Management Policy

In May 2011, the Argentine Central Bank (BCRA) issued Communication "A" 5203, providing for the guidelines on risk management in financial institutions. After reviewing and analyzing such regulation, the Bank hired the advisory services of Pistrelli, Henry Martin y Asociados Consulting firm, a member of Ernest & Young Global, at the end of September.

Consequently, the Board of Directors of the Bank amended its Organizational Chart, creating the Risk Management Department Management that reports directly to the Management Control, Risk Administration and Economic Research Unit. It supervises Credit Risk, Operational Risk and Financial Risk Deputy Department Management.

At the same time, the Risk Committee was created and its purposes, duties, internal operation rules and administrative management were established. It is responsible for giving institutional treatment to policies, strategies and procedures related to the Bank's comprehensive risk management and keeping the Board of Directors informed about the current risk exposure status.

Considering the basic premise that risk lies at the heart of the banking business and is an integral and unavoidable part of its operations, its main purpose is to preserve the Bank's solvency. A comprehensive understanding of global risk, its efficient control and management to optimize the yield-to-risk ratio can only be achieved through an integrated management involving the implementation of guidelines, policies and procedures for the identification, measurement, monitoring and mitigation of the different risks faced by the Bank.

During 2012, both the Risk Committee and the Board of Directors of the Bank took significant measures. Some of the goals achieved are:



- Approval of Strategies and Policies for each risk: development of metrics, procedures and tools, validation and calibration of reports useful to identify, measure and monitor risks.
- Imposition of management limits: creation of an early warning risk indicator system to measure and monitor exposure to different risks.
- Publication of the Transparency Report available on the Bank's web page to provide market participants with integral risk management information.
- Performance of stress tests by the Economic Research and the Financial Projections and Policy Managements.
- Preparation of a Contingency Plan, outlining the strategy to be followed in case of emergency.
- Reengineering of operational risk tools.
- Launching of an Incentive Plan by the Human Resources and Management Control Department Managements to reward employees satisfactorily performing operational risk management tasks.
- Design of a general methodology for integrating technological and operational risks.

2.1.10. Grupo Banco Provincia

Grupo Banco Provincia S.A. (GBP) is an organization majority controlled by Banco de la Provincia de Buenos Aires (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 with a view to the development of families, entrepreneurs, companies, local governments, the maintenance of adequate performance levels and the encouragement of its expansion within the Province through the creation and incubation of special innovation and transformation projects that may promote social inclusion.

At December 31, 2012, Grupo Banco Provincia S.A. kept permanent equity interests in the following 11 companies, out of which 8 are controlled by GBP:

Company	GBP Equity Interests		
	Direct	Indirect	Total
Insurance			
Provincia Seguros S.A.	60.000%		60.000%
Provincia Aseguradora de Riesgos del Trabajo S.A.	97.090%	1.746%	98.836%
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%
Services			
Provincia Microempresas S.A.	5.000%	0.000%	5.000%
Agencia Invierta Buenos Aires S.A.	50.000%	0.000%	50.000%
Provincia Servicios de Salud S.A. (*)	96.375%	3.620%	99.995%
Finance			
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%
Brokerage			
Provincia Bursátil S.A. Sociedad de Bolsa	95.000%	0.000%	95.000%
Mercado Regional de Capitales S.A. (*)	95.680%		95.680%
Provinfondos S.A. Sociedad Gerente de FCI.	0.000%	85.500%	85.500%

(*) In liquidation

• Provincia Seguros S.A.- Property Insurance

The Company, that participates in the market of General Insurance (property and group life insurance), recorded operations for \$1,683 million, out of which \$1,503 million was accrued during the year.

In 2012, it increased its production, promoting clients' and intermediaries' loyalty and creating new products oriented to specific segments of the market.

The Company modified its operative and regulatory processes in order to comply with the new regulatory framework set by the National Insurance Superintendency.



It enhanced the two integral processes with greater impact on technical result, the risk analysis and underwriting and the claim management.

In order to achieve greater corporate synergy, the Company developed processes for marketing leasing products and entered into an agreement with Banco de la Provincia de Buenos Aires for the sale of insurance products at the Bank's branches by expert sales agents who will work together with employees in charge of marketing the Bank's products.

It continued reinforcing its brand and corporate image, linking them to the Government of the Province of Buenos Aires, and developing institutional actions to strengthen corporate social responsibility and cultural and sports activities oriented to young people.

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

The Company participates in the market of workers' compensation insurance according to Law No. 2457/95.

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. This new regulation providing for compensation in cash and in kind, came into force on October 26, 2012.

During 2012, the Company issued premiums and surcharges for \$1,600 million, a 68% increase with respect to the previous year. At December 31, 2012, it had 952,000 policyholders, 16% over 2011.

Accumulated profits at December 2012, amounted to \$40 million as a result of an increased portfolio and the issue of a larger amount of premiums.

In 2012, the Company achieved the positioning and business goals required by the GBP, surpassing the number of insured and premiums. It ranked 4th at the national level and 1st in the workers' compensation insurance market of the Province of Buenos Aires.

- **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. It operates under the insurance banking marketing model in collaboration with the Bank.

During 2012, its production totaled \$68.4 million, 39% over 2011. Policyholders totaled 253,000, a 23% rise as against the previous year and it remained positioned as the leading insurance company in terms of insured.

At December 2012, it ranked 7th on the basis of life insurance policies, moving up two places with respect to the same month a year earlier, with a 4,01% market share. In the individual life insurance market, Provincia Vida placed 5th 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 (*Administradoras de Fondos de Jubilaciones y Pensiones-AFJPs*) to contract a life and disability insurance, from January 1, 2008, the Company had to discontinue its production and issuance of policies from that date. Therefore, its operations became limited to the collection of premiums of those insurance policies effective at June 30, 2007 and to the payment of the relevant claims. This significantly reduced the company's insurance portfolio.

Consequently, the Company adjusted its management structure to a better combination of expenses and income. In 2012, it recorded profits for \$51.2 million, supported by a diversified investment policy and optimization of the risk/return ratio. The Company paid GBP a dividend of \$13.5 million, charged to the results of the 2011 and 2012 fiscal years.

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

Grupo Banco 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, owned by the company or acquired for leasing purposes.

In 2012, the Company exceeded its business target implementing different marketing actions, and carrying out transactions that overfulfilled the goals (119%) set for a year characterized by a highly

competitive market. Once again, the goals were based on strengthening and maximizing several factors such as the support provided by the Bank. Among the marketing actions taken by the Company, mention should be made of the implementation of financing facilities, such as “Empleados Grupo-BPBA”, “Profesionales” and “Jóvenes Emprendedores” destined to attract a new market segment; talks given in different branches, industrial parks and cities of the province of Buenos Aires; as well as, the its active participation in several fairs and events, interacting with potential customers and suppliers.

These actions were adjusted to the prevailing financial-economic context accompanying and fostering the development and expansion of different markets during the year.

Training lectures/talks, leasing promotion, and meetings with customers selected by the Bank's managers and centers heads were some of the actions taken together with the other companies of the holding, generating a greater synergy among them. As a consequence of these actions, businesses channeled through the Bank accounted for 27% of the Company's portfolio.

The average financial leasing transaction amounted to \$263,600 with a high-level participation of SMEs.

In a breakdown by sectors, leasing transactions focused on transport and logistics as well as industrial equipment.

- **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, both common and financial, publicly and non-publicly offered, with an active participation in the market.

In line with National Executive Orders Nos. 246/11 and 14/12 whereby changes were introduced to lending transactions involving employees of the national public administration and retirees and pensioners from the Argentine Integrated Pension System, the Company's Board of Directors decided to redefine its activities in 2012, stating the types of trusts to be given implementation priority and setting a new commercial strategy.

Priority was given to the completion of new trust agreements involving national, provincial or municipal public entities, those destined to productive activities encouraging the offer of goods and services or where BPBA and/or any company of Grupo Banco Provincia is a party.

Additionally, the Company resolved to gradually reduce the creation of financial trusts where cooperatives or mutual companies act as trustors and where assets held in trust are loans to retirees or employees from the public administration; only in exceptional cases, the Company will maintain trusts where the trustor has a well known commercial reputation and the assets held in trust are in full conformity with the requirements of the above mentioned orders.

This new commercial direction affected the generation of new transactions and resulted in the execution of only 4 agreements in 2012, out of which 3 were related to the public sector.

The Company did not resort to external financing and carried on activities with its own funds. The investment of financial excesses became an additional funding source that in 2012 accounted for 9.6% of its total income.

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

Grupo Banco Provincia participates in the call center and collection service market through its affiliate Bapro Medios de Pago S.A. whose purpose is to provide services associated with means of payment and/or credit and systems management, including cards and other related activities.

Non-banking Collection System Business Unit

During 2012, the Company consolidated its leadership in the non-banking collection market, with an almost 9% increase in transactions and an overall 40% growth during the last three years.

Within the expansionary and brand-improvement strategy approached by the Company, 9 Service Centers were inaugurated so as to encourage customer-closeness and offer the wide range of services developed by the Company. Together with other Grupo Banco Provincia's companies, 2 representative offices were opened, one of them located in Bariloche.

Under the plan for transforming the Company into a service-integrating and intelligent network, certain differential products got consolidation in the market: transactions with SUBE (Single Electronic Ticket System) cards, collection of rates applicable to new identity documents and passports issued by the Office of Vital Records (RENAPER), collection of reciprocity fees (National Immigration Office), cash withdrawals and debit card payments, ATMs management and administration, and payment gateway.

Other services included incoming and outgoing remittances and the implementation of payments without bills. The relationship with provincial municipalities deepened and an agreement was signed with Banco Piano providing for the incorporation of over 300 collection agencies located throughout the metropolitan area.

Call Center Business Unit

Focusing on the market, Provincia Pagos Call Center serves the needs of different public and private entities, offering not only teleoperation services but also services based on IT platforms.

During 2012, the teleoperation service extended to include Banco de la Provincia de Buenos Aires after the launching of its electronic banking platform.

In line with corporate synergies, several campaigns were developed to support the activities of different Grupo Banco Provincia's companies such as: Provincia Leasing, Provincia Bursátil, Provincia Microempresas and Provincia ART.

Other Activities and/or Services

Under Resolution No. 1471/09, Bapro Medios de Pago S.A. was designated as the Centralized Collection Entity for the Office of Vital Records in charge of the processing, centralization, reconciliation and distribution of funds at a national level. Such agreement reflects the commitment and quality of the Company's activities.

Bapro Medios de Pago S.A. entered into a 10-year term agreement with the Provincial Institute of Lotteries and Casinos effective as of November 30, 2012 which provides for the rendering of integration management, 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 under the control of the Provincial Institute and/or carried out in other jurisdictions with its approval. Since an interruption of the service would favor the spreading of illegal gaming activities and as the result of the pressing need to maintain security, legal, speed, continuity and quality standards, a 10-month transition agreement was signed with Boldt Company which envisages a probable 6-month term extension.

- **Invierta Buenos Aires S.A.**

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

During 2012, Invierta Buenos Aires intensified its various lines of work.

Thus, the Agency together with *UIPBA Joven* and *FEBA Joven* organized the second "Incentiva" contest where young entrepreneurs are offered unprecedented institutional support in the Province to realize their projects. More than 400 projects were submitted, whether in process or at their initial stage, representing a 100% participation increase with respect to 2011.

To promote synergy within GBP, the agency kept on interacting with other companies of the Group performing the risk analysis of enterprises seeking financing through Provincia Leasing S.A.

Together with the Federal Investment Board (*Consejo Federal de Inversiones* – CFI), the agency financed two projects destined to boost provincial production, productivity, use of labor force and exports. Similarly, it worked with the International Economic Relations Undersecretariat under the control of the Provincial Ministry of Production as well as with the municipalities of La Matanza, Florencio Varela and Berazategui.

A monthly macroeconomic report is drafted for distribution among different GBP's companies and other firms. It is intended to provide a macroeconomic scenario on the evolution of the leading world and regional economies and includes an analysis on their current status and perspectives.

The agency went on offering technical assistance to the *Sociedad de Patrones Pescadores* fishermen's association of the city of Mar del Plata in order to design and implement a Productive Reconversion Plan which will include a financing mechanism for the construction and operation of inlet fishing boats. Since the end of 2012, the agency is also performing in such city a financing analysis and structuring for "Emprendimientos Terminal S.A." group, whose corporate purpose is the construction, start-up and management of a public, cultural and shopping walk in the premises of the former bus terminal.

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

Its main activity is to act as intermediary in the offer and demand of fixed-income/equity securities and financial derivatives and to carry out the other transactions specified in Law No. 17811, Executive Order No. 1020/03, the consolidated text of the General Resolutions and rules issued by the National Securities Commission, the By-laws, Internal and Operative Regulations and other communications issued by the Mercado de Valores de Buenos Aires S.A.

The Company 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.

The company continued building its strategy in the search of alternative segments, mainly focusing on the primary placement of financial trusts, either exclusively or as under-placement agent of other financial institutions. 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.

During 2012, it went on developing the Cereal Division whose purpose is to carry out brokerage activities involving cereal grain forward contracts, without participating as a commodity broker in the Mercado a Término de Buenos Aires S.A.

By the end of 2012, the National Legislative Branch passed Law No. 26831, which amends Law No. 17811 on public offering and provides for the transfer to the National Securities Commission (*Comisión Nacional de Valores –CNV*) of the regulatory powers on stock exchanges that had been previously conferred to the Mercado de Valores de Buenos Aires. As of the date of this Report, the National Executive Branch has already enacted the mentioned Law but the issuance of the regulatory decree is still pending.

In the commercial area, the relationship with institutional customers intensified even further, 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.

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

Provinfondos S.A. is an 18-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, 2012, total equity managed by Provinfondos S.A. amounted to \$539 million, 71.9% over the level attained at the end of 2011.

During the year, the Company developed different commercial actions that translated into an increase in both (permanence) average balances and amount of new customers, with the ensuing positive impact on income.

As an additional form of business, the Company began to attract funds together with the Bank's Financial Investment Unit, offering them to large companies as a useful investment tool.

During 2012, the Company began to channel its retail operations through the Bank's home banking platform.

In line with the goals set for branches in the Bank's commercial plan, a permanence/average balance of \$158.2 million was obtained in 2012 (112% up as against a year before).

2.1.11. Institutional Presence

The Bank's Corporate Communication Unit is committed to spread a unique marketing, advertising and institutional message aimed at enhancing its brand image and maintaining its long standing tradition.

In 2012, the Bank took an active participation in 12 important fairs and exhibitions organized by different productive sectors in the Province of Buenos Aires and the City of Buenos Aires.

FAIRS AND EXHIBITIONS	
EXPOAGRO 2012	JUNIN
FISA 2012	BAHIA BLANCA
FERIA DEL LIBRO	CABA
CAMINOS Y SABORES	CABA
126° RURAL PALERMO	CABA
EXPOINDUSTRIA	MAR DEL PLATA
2° MUESTRA MULTISECTORIAL	BENITO JUAREZ
52° EXPOSICION GANADERA, COMERCIAL E INDUSTRIAL	BRANDSEN
XXII EXPOBAVIO 2012	GRAL. BAVIO
EXPOPARQUE 2012 - ALMIRANTE BROWN	ALMIRANTE BROWN
EPSAM 2012	SAN MARTIN
EXPO-CAÑUELAS 2012 and "XVI FIESTA PROVINCIAL DEL DULCE DE LECHE"	CAÑUELAS

In May 2012, it organized the First Banco Provincia Seminar on “Bank Financing and Value Chains” which took place in the city of Buenos Aires.

The Bank also ratified its continued presence by participating in 147 conferences, festivals, fairs, sports events and anniversary celebrations as well as in 50 institutional events within the provincial territory, handing out 11 "Banco Provincia" prizes and donating flags to provincial schools.

2.1.12. Implementation of the Institutional Governance Code

In full compliance with the rules applicable to financial institutions, the Board of Directors approved and implemented the Institutional Governance Code of Banco de la Provincia de Buenos Aires in line with the provisions laid down in “Guidelines on Corporate Governance for Financial Institutions” set forth in Annex to BCRA’s Communication “A” 5201.

Its scope conforms to the text of the Bank’s Charter as well as to national and provincial legal rules governing the banking and financial business. It also ensures compliance with the Bank’s regulatory framework regarding activities and transactions, performance of duties and discipline of staff members, structure, composition and responsibilities of its main governing bodies, the relationship among them and their coordinated operation.

The Institutional Governance Code outlines the general operational rules applicable to all organizational levels, in proportion to the Bank’s size, complexity, economic relevance and risk profile, to the extent mentioned below:

- Statement of the Bank’s regulatory framework and its relations policies.
- Coordination and supervision structure: Board of Directors – General Management
- Role of the Bank’s governing body: Board of Directors. Duties and responsibilities, independence and organizational structure.
- Role of the Bank’s administrative body: General Management. Duties and responsibilities, organizational structure.
- Board of Director’s commissions and Committees
- Internal and External Audits. Internal controls. Supervision and superintendency.
- Economic incentive programs and policies for staff, and policies on transparency, “know your organizational structure”, risk management, privacy and customer’s data protection, conduct and ethics.

According to its provisions, the Institutional, Governance, Ethics and Compliance Committee is entrusted with the responsibility of its revision, updating and regular communication and must also ensure its observance Bank-wide.

Likewise, the Governance Code adheres to the Transparency Policy on Institutional Governance and seeks to properly disclose the information intended for depositors, investors and general public. To that effect, the Bank publishes in its web site www.bancoprovincia.com.ar the following information:

- a) Structure of the Board of Directors and General Management
- b) Charter and organizational structure
- c) Institutional governance code
- d) Ethics code and best banking practices
- e) Transparency policy
- f) Policy on Conflicts of Interest
- g) Risk management. Transparency report
- h) Annual report and Financial Statements together with their notes, exhibits and external auditor’s report.

Additionally, Notes 1 and 18.8 to the Bank’s Financial Statements at December 31, 2012 provide the following information about its prevailing Institutional Governance Code:

- The institutional nature of the Bank as a self-administered public entity, governed by a Charter enacted by provincial Decree Law No. 9437/79, as amended.
- Its role as financial agent of the provincial government.
- The organizational structure and composition of the Board of Directors, the eligibility conditions to be met by Directors and their term of office.
- The organizational structure of the General Management, duties and responsibilities of the General Manager and Deputy General Manager.
- The Board of Director’s Commissions and Committees, their composition and internal governing rules, stating the purpose of the 13 commissions and committees already created.
- Organizational Structure of the Board of Directors/President: Organizational Structural of the General Management. Number of employees and of branches, delegations and customer service agencies.
- Information on economic incentives to staff members, responsibility of the Board of Director for defining policies and participation of the Human Resources and Branch Network Commissions.
- Conduct and/or ethics policies applicable to the performance of duties throughout the Bank.
- Policies that oblige directors and managers to avoid situations that may give rise to potential conflicts of interest in the performance of their duties and in their commitment with other organizations.

2.2. **Financial Statements**

2.2.1. **Balance Sheet**

• **Assets**

In 2012, the consolidated figures with the Bank’s foreign branches showed a 25.12% y/y growth in Assets amounting to \$11,260. This was mainly due to increases in:

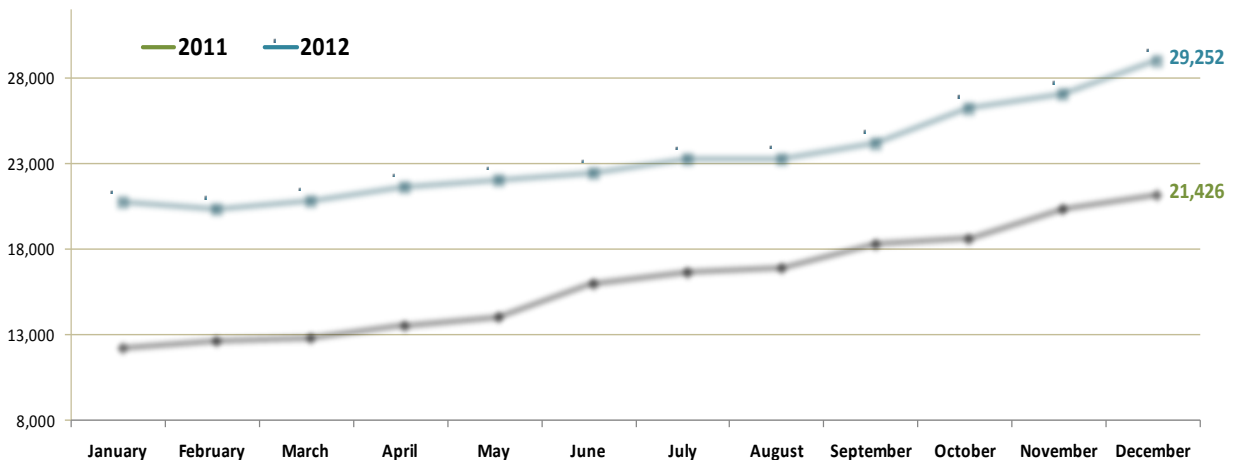
Cash and Due from Banks, which grew by 28.8%, equivalent to \$2,282 million.

The Loans caption, net of the uncollectibility allowance, improved by 36.53% (\$7,826 million) mainly on account of loans to the private sector, particularly Consumer Loans (\$2,675 million), Notes (\$2,369 million) and Credit Cards (\$1,272 million).

Government and Corporate Securities increased by 11.29% (\$1,127 million) due to the registration of guaranteed Bonds for \$948 million which, at December 2011, were held under a reverse repo with Banco Nación, and Securities issued by the BCRA for \$169 million.

An additional amount of \$10 million, accounting for 0.89%, corresponds to different types of bonds.

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



Miscellaneous Receivables increased by \$568 million (57.22%) mainly as the result of greater advances to the Retirement and Pension Fund (\$638 million) and the \$183 million decline in Loans to Staff as against the previous year.



2.2.2. Statement of Income

Total income reached \$660 million, accounting for a 9.98% increase (60 million) over last year.

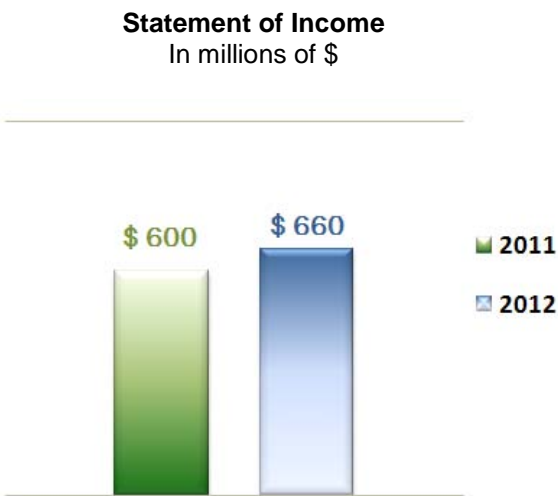
In 2012, net income from financial brokerage grew by 25.1%, surpassing by \$739 million the amount recorded in the previous year.

The gross financial brokerage margin totaled \$3,597 million, 36.65% (\$965 million) higher than in 2011. This result was due to a greater contribution of interest on loans which grew 66.87% (\$1,688 million) over last year as a consequence of the significant 65.26% growth (\$1,038 million) in both private sector deposits and interest on fixed-term deposits.

The net contribution of income/expenditures related to services rose 31% over 2011, amounting to \$1,840 million. The most significant increases were observed in commissions on account of Visa credit cards, loans and checking accounts.

Administrative Expenses (\$4,358 million) expanded by 34.36% as against 2011.

In 2012, the net contribution of Miscellaneous Income and Losses amounted to \$80 million mainly due to greater provisions for lawsuits and other possible contingencies and increased income on long-term investments.



3. Prospects

3.1. Medium term scenario

In the medium term, global economy would show a slow growing trend which would inure to the benefit of our country. This would be due to the fact that in 2012 risks related to financial uncertainty were diminished and a greater fiscal contraction was avoided in a context of an expansive global monetary policy. However, the growth pace predicted is still moderate since household debts are yet to be reduced.

Among developed countries, the United States succeeded in expanding the labor market after the election period and mitigating the fiscal adjustment effects predicted for early 2013. Though the Eurozone economy remained stagnated in the last months of 2012, the financial situation of the main peripheral economies stabilized, thus forecasting greater recovery levels.

With regard to the other countries that are relevant to the Argentine foreign trade, China's growth for 2013 is estimated at an annual 8%, slightly above 2012 figures (7.8%), though below the high average rate of the previous five-year period. Brazil, the major trading partner of Argentina, shows a weak growth accelerating trend and an annual 3% expansion is expected for 2013 (2.1 p.p. above 2011). This improvement would derive from the industry promotion plans, the reactivation of public works (infrastructure projects related to the FIFA World Cup and Olympic Games) and the increase in agricultural crops after the drought that affected the 2011-2012 campaign.

World trade would expand from 2.5% in 2012 to 3.6% in 2013 and would have a direct effect on local economy. Forecasts for next years indicate a rise in the recovery rate of global economy, thus reversing the 2012 effects on local economy.

A moderate improvement in Argentina's growing rate is expected for 2013 (annual 3.5% approximately). The perspectives of good results in the agricultural campaign and the lower public sector debt disbursements would help improve the purchase of foreign goods and streamline the productive process. Under these favorable conditions and in the context of an electoral year, public works projects would be undertaken thus boosting aggregate demand. Among the growth restricting factors, mention should be made of the slow recovery of private investment, mainly due to the uncertainty prevailing in the construction industry as a result of the new foreign exchange market conditions. Moreover, the energy sector would increase its demand for foreign exchange, affecting other import sectors.

3.2. Actions for 2013

- **Budgetary goals**

The Bank's Expenditure and Revenue Budget for the 2013 fiscal year, included in Provincial General Budget Law No. 14393, was fixed at \$5,782.95 million and was then increased by \$846.06 million through Provincial Executive Order No.120/13 totaling \$6,629.01 million.

Revenue estimates approved by the mentioned Law were calculated on the (net) Income from Financial, Services and Foreign Branches Transactions, which amounted to \$5,782.95 million. Such Revenue was increased by \$846.06 through Executive Order No.120/13, reaching \$6,629.01 for the 2013 fiscal year with a balance amount of budgeted expenses and the required resources to meet them.

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 on the assumption of a permanent and temporary staff of 9,904 and 637 employees, respectively.

- **Actions**

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

3.2.1. Financing Activity

The goal for 2013 is to maintain the Bank's share of total deposits held in the financial system at about 8.3%, by increasing the share of private deposits up to 9.1%, so as to set off a decrease in public sector deposits which would fall to 5.3%.

The level and trend of borrowing interest rates in early 2013 would suggest averages slightly higher than those of the previous year. This situation may predict average retail and wholesale rates of 15.1% and 15.7% per annum, respectively.

Within this framework, the Bank's total deposits (mainly in local currency and excluding the financial sector) are expected to grow by 34.7% annually. This growth would be based on boosting private deposit-taking in order to achieve sufficient funding to meet lending goals and increase financial volumes.

Capital Markets

One of the Bank's main goals for 2013 is the structuring, issuance and placement of short-term debt securities at 6 to 24-month terms. It would also intend to expand its portfolios of government securities and third party structured products.

3.2.2. Commercial Activity

3.2.2.1. Loan Activity

Along with the modest recovery of economy expected for 2013, the Bank's commercial activity would become more aggressive in order to increase its market share. There will be no significant changes as regards loan beneficiaries and the Bank's will continue facing the demand for financing of all productive and social sectors of the province and the city of Buenos Aires.

3.2.1.1 Corporate Loans

The loan strategy will involve loans and services oriented to finance business development, increase and improvement of working capital, and investments. Specific lending programs will be included in order to meet the needs of micro, small and medium enterprises (MiSMEs) and help insertion in the international

market through foreign trade-oriented products. The Bank will provide assistance to the productive sector in the context of an upcoming expansion of economy. It will focus on renewing all loan agreements at subsidized interest rates offered to the agricultural sector without disregarding the remaining productive sectors.

To make access to financing easier for SMEs whose customers were assigned a credit rating by the Bank, a “Purchase of Checks without Recourse” credit line will be implemented to provide funds to customers who do not qualify and those who have qualified but exceeded the agreed cap amount. Both cases will involve the sale of checks of selected companies and will facilitate financing that will help avoid interruptions in the production chain as a consequence of lack of liquidity.

The “Fondo de Garantías de Buenos Aires” (FOGABA), which substantially contributed to the Bank’s strategy in recent years by guaranteeing transactions of those customers who were unable to prove sufficient financial support in spite of their repayment capacity, will remain included in the loan portfolio. The existence of FOGABA will be of vital importance in a context of weak macroeconomic growth because it will convey certainty to loan market transactions.

Agricultural Sector

The Bank has planned to continue with the development of products and services aimed at granting loans for \$7,000 million.

The loan facility for productive investment will be maintained. The main feature of this facility is a fixed interest rate for the first three years (15.25%). The Bank will continue promoting and placing subsidized interest rate loans, and negotiations are going on with the Province and the National Ministry of Agriculture, Livestock and Fisheries to increase the amounts of the prevailing specific agreements.

With regard to the Procampo card, the Bank will continue developing joint ventures with leading input suppliers by means of special agreements offering producers low cost financing. The minimum credit card limit will be increased to \$48,000 and the Bank will make its best efforts to provide cards to every agricultural producer who is a Bank’s customer.

Industrial, commercial and services SMEs and MiSMEs

Forecasts for 2013 indicate a 20% rise in the volume of overall loans. Corporate loans to be granted through the SME Banking channel would amount to \$2,800 million.

Commercial actions would include contacting 2,400 companies, visiting 800 and assigning credit rating to 400 new businesses.

Corporate Banking

The Bank plans to keep on building customer loyalty, focusing on the retail segment through salary payment agreements with private sector companies to be concluded by the commercial team created for that purpose. Suppliers of large companies will also be included so as to achieve the goal of expanding the Bank’s SMEs portfolio.

Micro-enterprises

Expectations for 2013 include the optimization of the microfinance program (PROME S.A.) under which about 25,000 loans would be granted for a total amount of \$350 million.

3.2.2.1.2. Loans to individuals

In 2013, priority will be given to the placement of loans through electronic channels fostering the application non-prerequisite consumer loans through the Bank’s internet banking platform (Banca Internet Provincia, BIP). This will reduce the operative transactions in Business Units and, due to the enhancement in productivity that will derive from this tool, the loan portfolio will significantly expand. In terms of the indebtedness capacity of the retail sector, there are many possibilities of placing credit products. The strategy will consist in increasing the loan amounts granted through ATMs and the approved channels according to each sector (private-public-retirees).

The Bank will continue offering loans to beneficiaries of the Social Security Institute of the Province of Buenos Aires (IPS) and the National Social Security Administration (ANSeS). It is a credit line at preferred interest rates for a total of \$40,000 recently incorporated into the Bank’s portfolio. It was developed to allow the settlement of debts of the mentioned beneficiaries with mutual and financial companies under the payroll discount modality. It will also seek the conclusion of new agreements with automotive terminals to grant financing for the purchase of automobiles for personal use to all Bank’s customers with



or without credit rating, at favorable interest rates as long as Provincia Seguros S.A is the insurance company selected by the beneficiary.

3.2.2.2. Service Management

Credit and debit cards

In 2013, the Bank will pursue the rise in income from services related to the activation and use of debit and credit cards for the purchase of goods and services. To this end, the strategy will be oriented to meet the needs of the non-financial private sector. Actions will include:

Corporate segment:

The placement of corporate credit cards for each new checking account will be coordinated by several areas of the Bank with a view to reach a business specialization degree.

Packages of credit cards and products for private sector employees will be enlarged so as to attract customers with salary accounts.

A new business card targeted at the industrial sector will be redesigned and launched to replace the Pactar card.

Individual segment:

The Bank estimates to place 270,000 and 60,000 Visa and MasterCard credits cards, respectively, in three stages. The market will be geographically divided to commercialize MasterCard.

Moreover, packages of services including the Visa credit card will be launched for the overall university segment (academic and administrative staff and students). The same benefits will apply to post-graduate courses, if any, and all members of the different schools will be included.

A significant increase in the average amount of credit card purchases is expected on the basis of the impetus that would come from the “pre-embossed card launching effect” on a business with high potentiality, in a context in which aggregate economy will improve over 2012.

Electronic means of payment

Due to the increase in the use of electronic means of payment by the Bank’s customers, and the issuance and activation of cards, about 390,000 individuals are expected to be operating under the BIP platform by the end of 2013. This expansion in the number of users will contribute to the Bank’s goal of moving transactions from traditional channels to an electronic environment and fostering the purchase of products and services through the Internet platform. In this sense, “spillover effects” are expected to occur, which will help expand business and modernize daily transactions.

In 2013, the migration process towards electronic channels will continue (Internet and Mobile Banking). The Bank predicts an annual 30% rise in the number of users as well as in the main transactions (payment of taxes, inquiries, transfers, among others). Within this framework, the BIP platform will go on developing and incorporating new functionalities, including the following: notice of travel abroad, opening of Funds accounts, purchase of ATM robbery insurance policies, payment buttons, recharge of the “Rechargeable Visa” card, immediate judicial transfers, SMS warnings and notices, exchange of accrued points for rewards, consolidated position at December 31 of each year, recharge of the SUBE card (supervised by “Nación Servicios”), withdrawal instructions without a card, miscellaneous purchases and display of scanned checks.

In 2013, the Bank will have its own Mobile Banking platform, therefore it will stop using the “Link Celular” services provided by Red Link. This will allow the Bank to operate independently, without intermediaries, and to incorporate functionalities to this channel. By year end, when the Bank’s Mobile Banking is estimated to be operative, 30,000 users would join the platform, accounting for about 10% of the Internet Banking users projected for such period.

The corporate portfolio migration process to its own Internet Banking platform will be concluded and the Bank will focus on a marketing campaign aimed at maximizing adherence to this channel. A successful migration will demand an active participation of branches and a fluid coordination among Head Office areas since it will be necessary to contact entities and companies to drive them to make this cultural change.

Locations

In 2013, the Bank will promote the opening of Business Units (UdN's) in those areas with market potentiality or where it may deem appropriate for social purposes. The relocation process of UdN's started in 2012 in line with infrastructure or commercial needs will continue in 2013.

"Expert Locations" will first be created in La Plata and San Miguel and then will be expanded into other cities.

The number of ATMs would be increased by 150 units to meet the needs of this growing market segment. In order to define their location, the following aspects will be analyzed: Increase of demand, number of transactions and number of debit cards issued, among other factors. The Bank will carry out its transactions at leased premises, facilities of the Province of Buenos Aires or its Municipalities or under the "Convenience ATM" agreement entered into with Bapro Medios de Pagos (BMP).

The aim will be the expansion and improvement of the electronic banking units located at the UdN's and neutral locations at public agencies and Provincia Pagos, among other. This will allow increasing installed capacity and market penetration, even when profitability at first may not fit in with expected figures in view of the restricted size of the market.

Foreign Trade

In a context of recovery of the Argentine foreign trade, the 2013 goals include:

- 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.

Actions towards innovation:

- The Web Module for Customers will be developed and implemented to: offer customers self-management tools and immediate information, and attract potential customers.
- Transaction and loan volumes will grow. Foreign trade products and services are a significant market segment of the Bank, which will focus on rendering advice and offering them to SMEs of the province of Buenos Aires.
- Balances of loan portfolios will be increased in the Sao Paulo and Montevideo branches.

3.2.3. Credit rating

The Bank will continue developing a web-based credit-score tool and related rating models. To this end, a reengineering strategy will be formulated, which will envisage a well-targeted offer of financial products.

3.2.4. Loan Recovery Policy

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

It will update guidelines for the follow up of those debtors that could not be regularized through special recovery plans considering the existing features and repayment capacity on a case by case basis.

3.2.5. Relationship with the Provincial Public Sector Policy

The Bank will keep on visiting the Municipalities of the Province of Buenos Aires to further improve existing commercial relations and offer its portfolio of banking products.

It will focus on reducing the workload of cashier desks at Business Units by searching for new alternatives and changing internal procedures.

Moreover, after the success of the Arroyo Dulce project, the Public Sector Management together with the Commercial Policy Area and Provincia Pagos will make arrangements to provide services in many cities of the Province of Buenos Aires that remain unattended by the Bank.

3.2.6. Human Resources

Planned goals include:

To recruit personnel according to the identified needs and an efficient recruitment policy, taking into account the Bank's strategic projects designed in line with the number of employees approved by the

Provincial Legislature. In turn, the reassignment of personnel will be based on the retirement process, filling of positions and hiring of new employees.

To continue planning staff distribution in line with business requirements, providing each Business Unit with the necessary management officers.

To encourage staff flexibility to help employees adapt to the diverse business needs.

To strengthen and foster sales skills of division chiefs and bank clerks.

To keep on training the Bank's staff to help it achieve the instruction level required by the complex and dynamic current banking business. This is also an incentive for employees during their working life.

To implement a Cardiopulmonary Resuscitation Program in all Business Units and Central Areas since employee's training on this technique is considered of vital importance and adds value to the services offered by each branch of the Bank.

3.2.7. IT Policy

According to the 2013 IT Operative Plan, the Bank will continue consolidating its IT systems and updating technology. The following projects are worth mentioning:

Development and maintenance of Internet Banking.

Proprietary Mobile Banking platform.

Corporate scoring.

Customer Relationship Management (CRM).

People Flow Management Model.

New AR Plus Benefit Program.

Document Discounting – Tranche extension.

Automation of fixed-term deposits at pre-agreed rates cancelable before maturity.

Optimization of the Consumption Scoring System.

Reengineering of the web site.

Business Data Base.

Currency Administration System.

Procurement and Hiring Electronic File.

New JUREX System.

Intranet Reengineering.

Taxes – Tax Rolls and Data Unification.

ARBA provincial revenue service: Upgrading of Real State Tax Collection System.

Accessibility for visual impaired users.

Reduction of manual entries – trx 9000.

Control of checking accounts exempt from, or with reduced rate of, the Tax on Financial Transfers.

Customer's Profile.

Optimization of the Minimum Capital Reporting System.

Computation of default interest.

Means of Payment Accounting Reconciliation – MASTER Portfolio

Monitoring of Fees.

Optimization of Direct Debit, Payment and Collection Services.

Automation of Agreements Registration.

Reengineering of the Operational Risk Management System.

Optimization of Processes and Controls – Anti-money laundering.

MEP automation system.

3.2.8. Risk management

Among the different lines of action to be implemented in 2013, the following are worth mentioning:

- Analysis, review and implementation under Communication "A" 5398 of the BCRA providing for amendments to risk management guidelines in financial institutions, and introducing securitization, concentration, reputational and strategic risks.
- Analysis, preparation and implementation under Communication "A" 5394 of the BCRA providing for minimum reporting requirements to be met by financial institutions regarding their structure, capital adequacy, risk exposure and general management.
- Annual review and approval of Strategies and Policies for each risk mentioned in Communication "A" 5398.
- Implementation of risk management standards for new products and/or new activities.
- Application of operational risk management standards for outsourced activities and/or services rendered by suppliers.
- Implementation of an Incentive Plan to reward members of the Bank's staff satisfactorily performing operational risk management tasks.
- Introduction to the calculation of economic capital for different types of risks.

- Analysis of Grupo Banco Provincia's risk management policy for its integration within the framework of the Bank's management standards.
- Definition and development of risk stress testing scenarios.

3.2.9. Grupo Banco Provincia

The Holding will continue to favor the generation of income from GBP and its companies to the Bank, through defined business goals aiming at: attaining consolidated earnings of more than \$5,900 million, income for \$163 million and 26% ROE.

The strategy will be based on the following value proposals for products and services of GBP and its companies:

- To be close to the people of the Province of Buenos Aires accompanying their consumption, savings and investment activities.
- To focus on national, provincial and municipal governments and associations and their areas of action in order to strengthen the Province – Bank – GBP and Companies synergies.
- To give support to small and medium enterprises regarding their evolution, growth, inclusion and sustainable development.
- To provide dynamic solutions to foster productive growth in the Province of Buenos Aires through the use of tools favoring the development of public and private investment projects.
- To support, promote and render accessible and quality services under existing or new business developments by companies of GBP.

In accordance with the provisions of Resolution No. 37163 of the National Insurance Superintendency effective from January 2, 2013, policy guidelines and adequacy plans will be established requiring its three controlled insurance companies to invest certain minimum and maximum percentages of total investments included in their Coverage Statements in instruments for the financing of productive or infrastructure projects. Provincia Seguros S.A. from 10% to 20%, Provincia Seguros de Vida S.A. from 12% to 30%, and Provincia ART S.A. from 5% to 20% of their total investments, excluding real property.

3.2.10. Institutional presence

As a goal for 2013, the Corporate Communication Unit will deal with all communication systems stressing the synergy between the Commercial Policy and Quality Control areas.

It also expects to launch Twitter-based Customer Service working jointly with other areas of the Bank.

The organization of the Second Banco Provincia Seminar on Value Chains is also planned.

The Bank will maintain its traditional presence in different fairs and exhibitions, conferences and festivals in the Province of Buenos Aires during 2013.