

# 2013 Annual Report

Banco de la Provincia de Buenos Aires



**Banco Provincia**  
De tu lado



## TABLE OF CONTENTS

1. Evolution of the Macroeconomic Context .....	3
1.1. Real Sector .....	3
1.2. Public Sector .....	5
1.3. Monetary System and Money Market .....	6
1.4. External Sector and Foreign Exchange Market .....	8
2. Evolution of the Microeconomic Activity .....	11
2.1. Management Policies.....	11
2.1.1. Financial Policy .....	11
2.1.2. Commercial Policy.....	15
2.1.3. Credit Risk Policy .....	23
2.1.4. Loan Recovery Policy.....	24
2.1.5. Relationship with the Provincial Public Sector Policy .....	24
2.1.6. Budgetary Policy .....	25
2.1.7. Human Resources Policy .....	26
2.1.8. IT Policy .....	27
2.1.9. Risk Management Policy.....	28
2.1.10. Grupo Banco Provincia .....	29
2.1.11. Institutional Presence .....	36
2.1.12. Institutional Governance.....	37
2.2. Financial Statements .....	38
2.2.1. Balance Sheet .....	38
2.2.2. Statement of Income .....	40
3. Prospects.....	40
3.1. Medium-term Scenario.....	40
3.2. Actions for 2014 .....	41

# 1. Evolution of the Macroeconomic Context

## 1.1. Real Sector

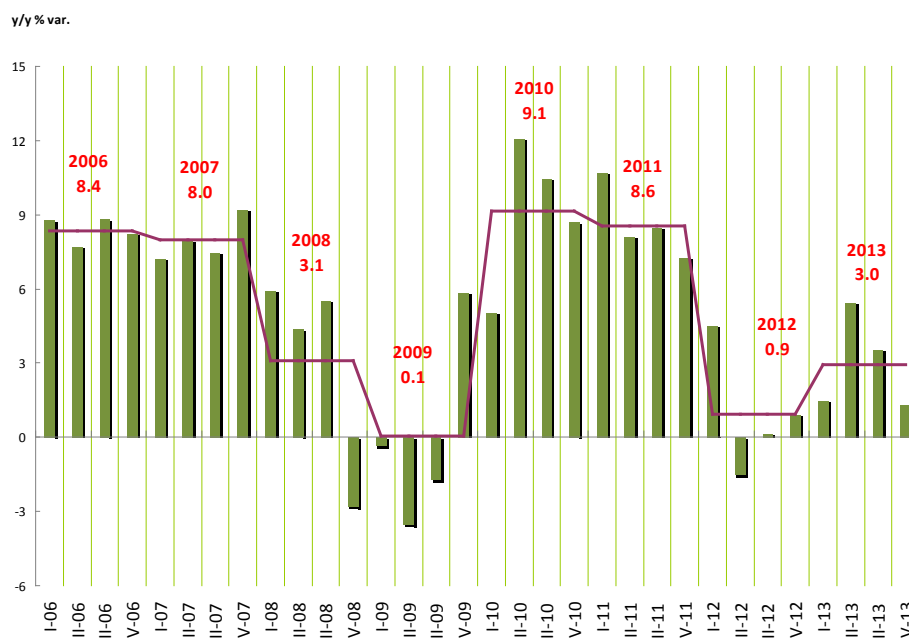
Global economy recorded an inflection point in 2013, since the effects of the international crises started five years ago slowly began to reverse. According to the information provided by the International Monetary Fund (IMF), the growth of the global Gross Domestic Product (GDP) stood at about 3.0%, slightly below 2012 figures (3.2%). Once the Euro-zone financial crisis and Japan fiscal uncertainties had been resolved, the developed economies resumed their growing trend in 2013. Such trend became more evident during the second half of the year, though there is still a need to insist on fiscal consolidation and household deleveraging. In this scenario, the United States gradually discontinued its monetary stimulus policies, thus causing interest rate increase and liquidity reduction at a global scale, which mainly affected emerging economies after several years of highly expansive financial conditions.

Within a framework of low increase of trade activity, reduction of raw material prices, capital outflow and structural reforms, the expansion of emerging and developing economies stood at an annual 4.7%, slightly below the figures recorded in the previous year (5.0%) and before the international crisis. Emerging economies growth resulted mainly from the stability of domestic demand and the increase in consumption and investment. Among these countries, mention should be made of the sustained growth of China in a context of redirecting the expansive model towards consumption. To this end, several structural reforms were announced to raise the standard of living and changes were introduced to the population policy to reduce the effects of the tightening of global financial conditions and the outflows of capital. Countries of Europe, Central Asia and Sub-Saharan Africa improved while Middle East countries (and other commodity exporters) recorded a lower performance, affected by the reduced prices of raw materials and the political instability after the “Arab Spring”.

The Latin American and Caribbean region expanded 2.7% in 2013, 0.4 p.p. below the previous year, with an uneven pace of growth in the countries of the region. Mexico’s growth rate and the United States’ demand decelerated, while Brazil recorded a lower expansion rate due to the toughening of global financial conditions and inflationary pressure.

In this scenario, the Argentine economy recovered its activity level after the reversal of the negative effects of 2012. Special mention should be made of the goods production rise in line with the acceleration of the production of services. Thus, after increasing 0.9% in 2012, GDP grew about 3.0% in 2013 and recorded a 2.1 p.p. improvement over the previous year.

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



Source: INDEC (National Statistics Institute)

In terms of supply, goods production grew about 1.9%, mainly due to the performance of the agricultural and construction sectors, and reverted the previous year fall. After the drought that affected the 2011-2012 campaign, the agricultural industry recovered in 2013, recording a grain production of over 100 million tons and increases in the production of milk and meat. The farming sector improved about 12% during the year and resumed the level of activity shown in 2011. On its hand, the construction activity was boosted by the reactivation of private works as a result of an improved economic activity and an increase in housing demand stimulated by the Pro.Cre.Ar line of credit. The sector was also positively affected by the greater investment in petroleum resulting from higher domestic prices, new investment plans and extensive public works. With regard to the remaining sectors, fishing and energy, water and gas supply performed favorably. On the contrary, manufacturing and mining sectors showed decreases in their production volumes.

Service-producing industries rose about 4% during the year. Financial brokerage stood as the most dynamic (21.0%) and accounted for almost one half of the service sector's growth. Among the most active sectors, mention should also be made of hotels and restaurants (4.3%) and public administration (3.5%) stimulated by a high consumption level. Transport and trade, the two larger sectors of this segment, improved 2.7% and 1.8%, respectively. Education and health kept their upward trend in line with a greater public and private investment, while the real estate sector showed a low expansion.

Imports rose 1.6% approximately, probably caused by the purchase of services (mainly tourism) together with greater income from fuels, automobiles and capital goods. When measured at current prices, the imports/GDP ratio grew from 14.1% in 2012 to 14.7% in 2013.

On the demand side, the growth in GDP was mainly due to private and public consumption. With a 4.3% annual expansion, private consumption kept on boosting economy favored by an enlarged volume of public transfers that helped increase families' income, tax reductions, and 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 4% y/y expansion and accounted for 0.8 p.p. of the GDP annual growth.

Investment performed positively and left behind the previous year fall. The investment rate stood at 20.9% of GDP, a 3% rise over the previous year, mainly as a consequence of durable goods purchases, which improved 3.1% as against 2012 and reached 10.4 p.p. of GDP. Purchases were mainly the result of better financial conditions and governmental plans that fostered the incorporation of capital, such as Credit Facilities for Productive Investment. Argentine products, mainly vans and agricultural machinery, improved 0.9% while imported goods recorded -4.5%. Construction investment rose about 2.7% and partially offset the loss recorded in the previous year. Such improvement was partially due to the greater number of infrastructure projects and governmental plans, such as the Pro.Cre.Ar program, which fueled the construction of single family homes and the refurbishment of houses.

Export volumes decreased as a consequence of the contraction of inbound tourism and corporate services and of lower exports of goods caused by the decline in the available agricultural balance.

With respect to the labor market, almost 177,000 new jobs were created on average, a 1.1% rise over the previous year. The employment rate expanded in a context of labor force reduction, primarily as a result of women's less active participation. The slight increase in employment and the contraction of labor supply entailed a reduction of the unemployment rate to 6.4% of the economically active population, 0.5 p.p. below 2012. Wages grew 25.9% mainly boosted by private sector salaries. "Informal" private sector wages rose 27.7% while those of the "formal" sector and public administration increased 25.2% and 26.2% per annum, respectively.

## 1.2. Public Sector

Public sector accounts continued their downward trend for two consecutive years and recorded a deficit at the primary level and after interest payment. Spending remained high mainly due to the significant disbursements on account of capital expenditure, transfers to provinces and pension payments.

Tax revenues amounted to \$858,832 million, a 26.3% y/y increase, so that the collection/GDP ratio reached 25.6%, 0.9 p.p. over 2012. Out of such total amount, \$224,481 million was automatically transferred to the provinces.

The performance of taxes imposed on social security and domestic activity was noteworthy, while resources from foreign trade stagnated during the year. Income from social security grew by 30.9%, totaling \$229,767 million, as a result of the increase in formal employment and wages. At the same time, cap amounts for personal contributions were raised. In 2013, these resources performed similarly to the previous year, though in the last months they showed a slight downward trend.

Among taxes related to the activity level, the collection of the Income Tax evidence the best performance with a 32.6% expansion, thus amounting to \$183,599 million. This derived from the reporting of greater income and a wider taxpayer base, including both companies and individuals, which was partially reduced by the increases in the non-taxable minimum amount approved during the year. Moreover, advances related to foreign purchases and, to a lower extent, tax amendments introduced during the second half of 2013 which levy the sale of shares and the distribution of company's profits also contributed to such increase.

The collection of the Value Added Tax (VAT) rose by 30.4%, and totaled \$251,743 million, mainly fueled by families' consumption and the rise in imports. Thus, VAT collection improved the poor performance of the previous year and recorded a significant 29.3% share in total revenue.

Income from foreign trade showed a slight upturn as a whole. Import duties jumped 42.0% as a result of the increase in imports and the foreign exchange rate, while export duties diminished. The 9.5% nominal reduction in export duties mainly reflected the contraction of grain and fuel foreign sales.

The moderate tax revenue was offset by a remarkable 79.9% y/y rise in non-tax revenue, increasing its share in public revenue to 3 p.p. approximately and accounting for 11.6% of total revenue. The hike was mainly due to property income, larger remittances of profits for the BCRA and interest from the National Social Security Administration (*Administración Nacional de Seguridad Social* – ANSeS). National Government's total income expanded 30.4% y/y and grew by \$167,514.-

Spending remained high with a 29.1% increase, similar to the previous year. Such rise was fueled by greater current expenditure since interest spending contracted as a result of the non payment of the GDP-linked coupon, as against the previous year. Primary spending grew 33.5% totaling \$740,393 million, dynamized by higher social security contributions, transfers to families and other current expenditures.

Among traditional captions, social security contributions rose 33.0% due to the implementation of the mobility policy on pension payments, contributory pensions and honorary contributions. Wages improved 28.4% as a consequence of the agreed salary increases and the greater number of employees. Both segments accounted for 48.5% of the total expenditure increase.

Among the remaining components of spending, resources allocated to capital expenditure, transfers to provinces and other expenses grew at a faster pace. Capital expenditure rose 45.8% accounting for 9.2% of primary spending expansion. Mention should be made of the remarkable performance of the resources allocated to housing works, the Conectar Igualdad program, road

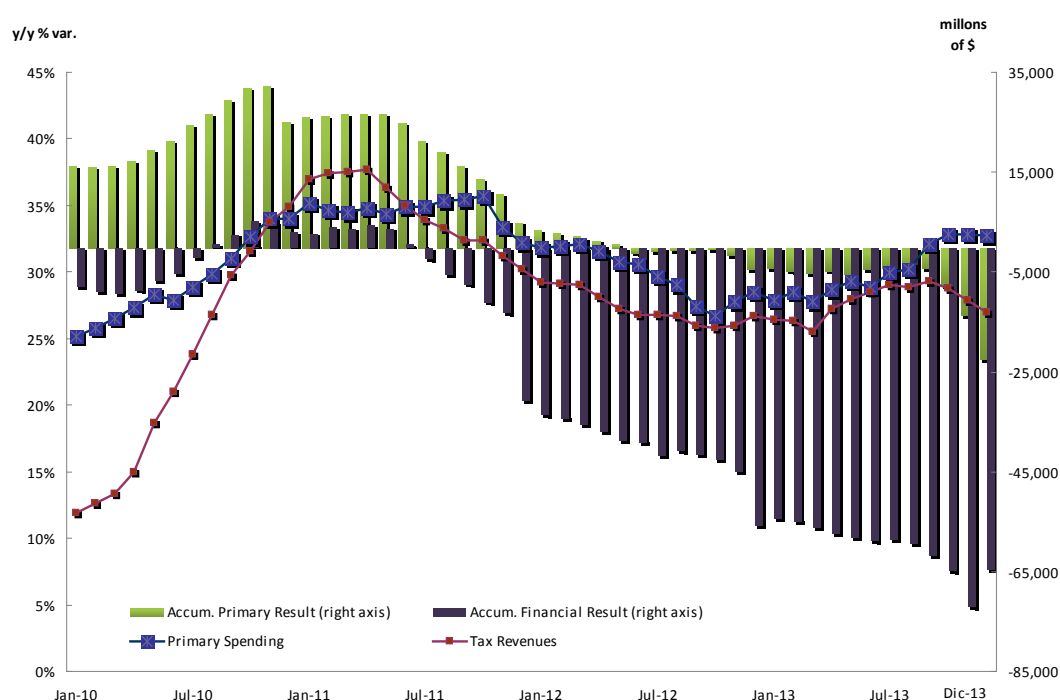


infrastructure works and financial assistance for the implementation of the satellite system and termination of the Atucha II power plant.

Spending related to current and capital transfers to provinces rose by 38.4% y/y, without including automatic transfers.

Other expenditures moved up 38.5% y/y, mainly driven by greater costs associated with imports of fuel. Transfers to the private sector grew 29.0% y/y, substantially due to higher disbursements on account of financial assistance for the implementation of the energy policy, increased transfers to national universities and larger subsidies and social benefits such as the Universal Child Allowance. Mention should also be made of the changes introduced to categories, maximum amounts per individual/family and amounts of subsidies and social benefits. Payments made to gas producing companies to help improve national self-generation also stood out.

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



Source: Ministry of Economy and Public Finance

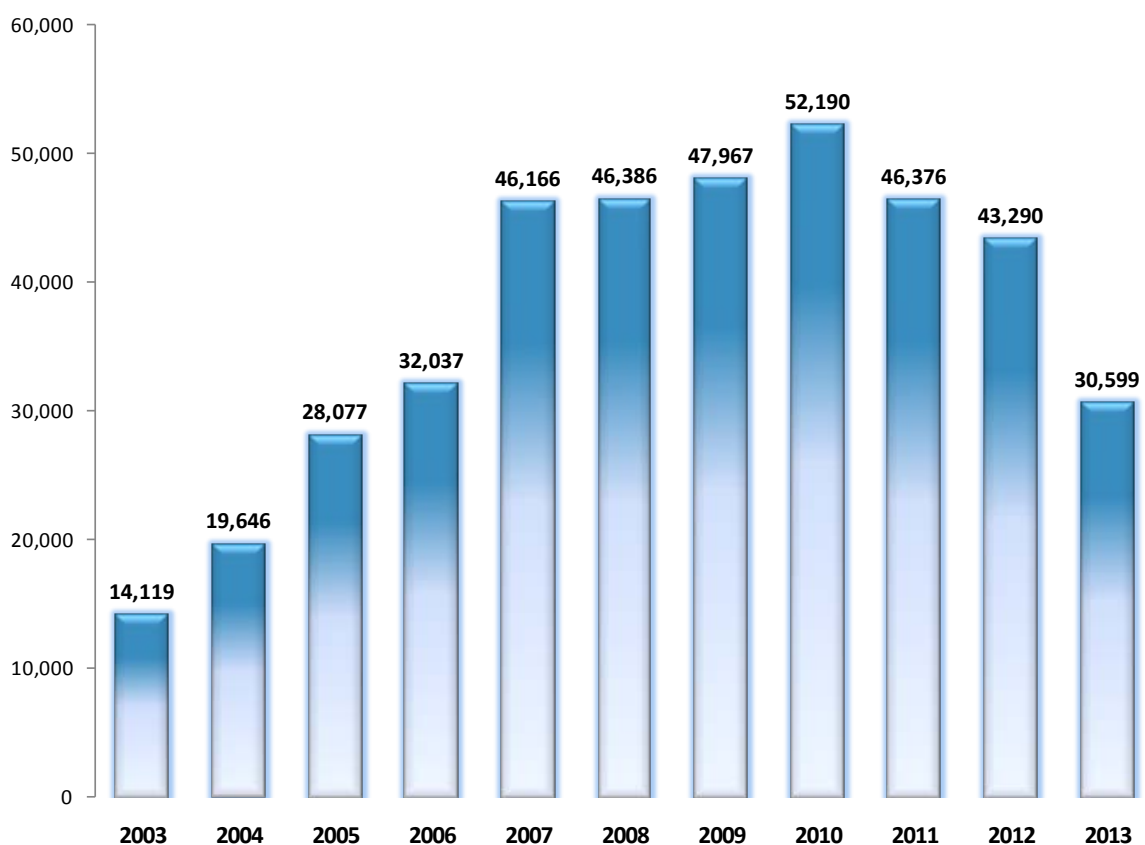
In terms of GDP, primary spending and total income rose 22.1 p.p. and 21.4 p.p., respectively, in 2013. Thus, the primary result stood at -0.7% of GDP, 0.5 p.p. above the figures of 2012. The National Treasury continued meeting its financial liabilities; freely available international reserves were used to pay public debt owed to international lending institutions and private creditors.

### 1.3. Monetary System and Money Market

During 2013, the BCRA maintained the managed float regime in order to moderate fluctuations in the exchange rate (\$/US\$) and protect International Reserves. However, reserves decreased 29.3% y/y, from US\$43,290 million at December 2012 to US\$30,599 million at the end of 2013 due to a greater demand but a lower supply of foreign currency. Such performance was driven by the following factors: payments of the BCRA and public sector debt (principal and interest) in foreign currency (FONDEA) for about US\$7,967 million, where the payment of GDP-linked instruments (FONDOI) for approximately US\$2,324 million in March stood out. Moreover, a reversion of net flows in financial loans for US\$19,662 million was recorded, partially explained by the slow down evidenced in financial loans from abroad and, mainly, to net cancellations of

domestic loans granted by financial institutions. This situation derived from the withdrawal of local deposits in foreign currency at the same time that domestic loans in pesos improved. During the first half of the year, there was an increase in net payments on account of spending related to tourism and trips of nationals abroad, which in previous years were covered by the free access to the purchase of foreign currency and traveler's checks. The demand for dollars required to pay imports of goods increased by US\$1,973 million during the year.

**BCRA International Reserves**  
In millions of US\$, last day of each year  
Excluding National Government Securities



Source: Argentine Central Bank

Total monetary base improved 23.7% y/y, from \$292,138 million at December 2012 to a monthly average of \$361,410 million at December 2013. Public sector played a significant role in such expansion since it increased by \$46,589 million y/y, mainly as a result of temporary advances granted by the BCRA to the Treasury. To a lower extent, the financial sector and the BCRA Securities contributed with \$8,777 million and \$6,267 million, respectively. On the other hand, the external sector played a contractive role in such expansion, totaling \$32,331 million as opposed to \$41,086 million in 2012. The total monetary aggregate M2 improved 26.4% y/y, 0.8 p.p. below the previous year.

Interest rates on the financial instruments used by the Central Bank to stabilize the money market moved significantly upwards accumulating an annual increase of 2.9 p.p. in the case of LEBACs (their interest rate at one year rose from 14.9% to 17.8%).

At year-end, total peso deposits in the financial system recorded an annual 26.9% growth due to a greater dynamism in private and public sector placements (30.1% and 20.2%, respectively). The growing pace of private sector deposits was fueled by the performance of fixed-term placements denominated in pesos, which soared 35.7%, with a remarkable activity of the

wholesale segment (\$1 million or more) that expanded 40.8% y/y, while the retail segment grew 30% and demand deposits rose 25.5% during the year.

Borrowing interest rates recorded an upward trend as a consequence of the lower liquidity level of the system resulting from a deceleration in the growing pace of deposits. Thus, the interest rate paid by private banks for fixed-term deposits over \$1 million (BADLAR) with a maturity of 30 to 59 days rose 4.8 p.p. (from 15.4% to 20.2%) during the year. The interest rate for 30-day placements of up to \$100,000 increased by 3.8 p.p. and moved from 13.7% to 17.5% in 2013.

According to the guidelines of the new BCRA's Charter, effective since April, the Central Bank introduced a set of tools which helped it comply with its various goals, particularly regarding credit policy, under two lines of action. On the one hand, reserve requirements for financial institutions were readjusted in order to favor SMEs' financing and, on the other, measures aimed at granting a greater number of long term productive loans were introduced. The BCRA continued supporting the expansion of the Bicentennial Productive Financing Program, which ended in December with a \$5,860 million disbursement. It also implemented the second and third stage of the Credit Facility for Productive Investment program to which financial institutions must allocate 5% of their peso deposits from the non-financial private sector. The program offers lending facilities at lower rates than those prevailing in the market with a reimbursement term of at least three years. Fifty per cent 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.

Total loans granted by the financial system to the private sector rose 34.7% y/y. Discount of documents and advances in checking accounts grew 46.3% and 19.8%, respectively. Moreover, family consumer loans also improved and recorded increases of 42.7% y/y and 31.2% y/y in the case of credit cards and consumer loans, respectively. Pledge loans and mortgage loans expanded 41.4% y/y and 24.9% y/y, respectively.

Lending rates showed a mixed performance with rises on rates for short term facilities and certain fluctuations in those applied to long term loans. The average interest rate for advances on checking accounts stood at 27.6% accounting for an annual increase of 5.8 p.p. Likewise, as regards financing implemented through the issuance of documents, interest rates on signature loans averaged 22.4% with a year on year increase of 3.8 p.p. Among long term facilities, personal loans stood at an annual 39.1% (4.8 p.p. increase). Credit card financing grew by 1.8% p.p. reaching 36.9%. Interest rates on pledge loans averaged 21.1% and rose 1.5 p.p. during the year. In contrast, the interest rate on mortgage loans for individuals averaged an annual 16.5%, 0.7 p.p. below 2012.

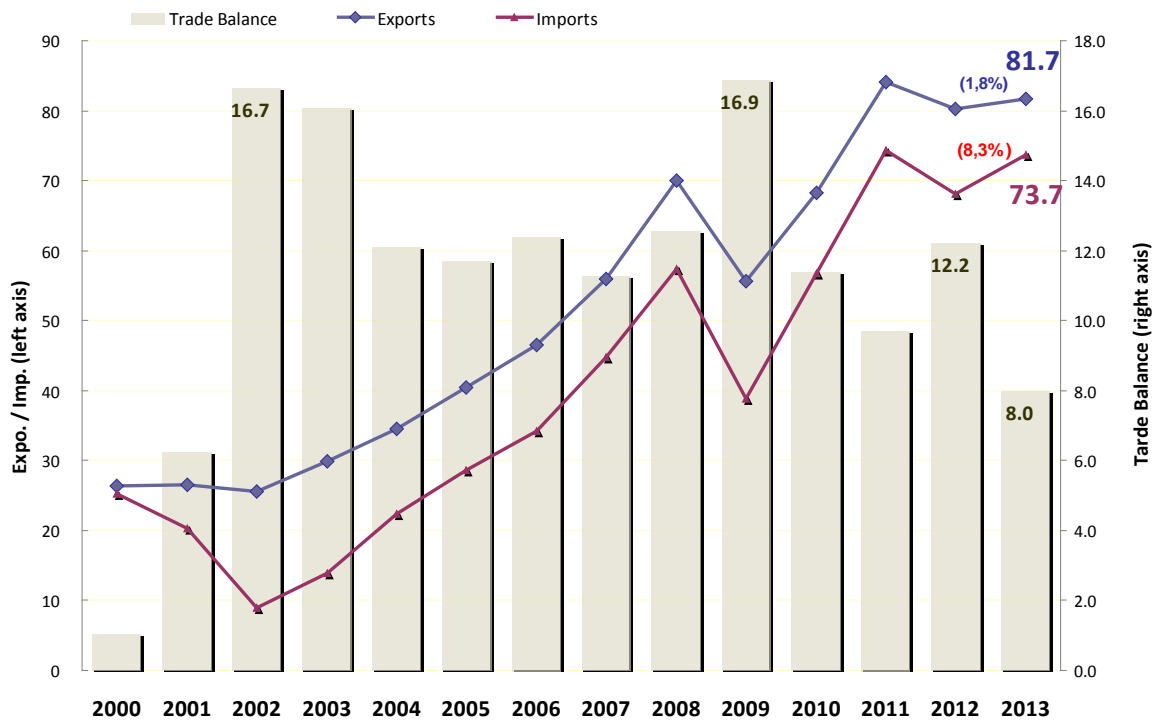
#### **1.4. External Sector and Foreign Exchange Market**

The recovery of the national and international economic activity and the exportable agricultural balance positively affected the trade of goods in 2013. Exports grew 1.8% over the previous year, reaching US\$81,660 million, while imports rose 8.3% and amounted to US\$73,656 million. Trade balance dropped by 34.5% to US\$8,004 million as against US\$12,226 million in 2012.

When measured at current prices, the trade/GDP ratio (value of exports and imports of goods and services divided by GDP), slightly increased over 2012 and stood at 30.7%. The improvement was due to a higher import share in GDP.



### Balance and y/y Variation of Import and Exports of Goods In billions of US\$



Source: INDEC (National Statistics Institute)

The upswing in the agricultural exportable supply and demand had a favorable effect on exports. The hike was prompted by the 3.4% annual rise in volumes, which more than offset the 0.9% reduction in average prices. Foreign sales of energy contracted due to the greater internal demand in a context of local production stagnation.

In a breakdown analysis, the sharpest rise was evidenced in agricultural manufactures which improved 9.2% y/y, exclusively as a result of higher exported volumes (10.0% y/y) since prices decreased by 1% y/y. Such improvement derived mainly from the increase in the sales of food industry wastes together with the growth of exports of meat, dairy and leather products. With regard to the remaining sectors, sales of fats and oils stagnated primarily due to the drop in their average prices, and exports of milling products also declined as a consequence of the sharp reduction in the internal supply of wheat.

Exports of industrial products could recover from the poor performance of 2012 and expanded 4.0% as a result of a 6.0% increase in volumes and a 2.0% drop in prices. They reached US\$28,413 million, accounting for 34.3% of total sales, similar to previous year's levels. Exports' growth was boosted by the increase in the sales of land transport material, mainly to Brazil. Among the sectors with contractive performances, mention should be made of air, sea and river transport vehicles, and precious stones and metals and their by-products.

Exports of primary products rose 1.0% and totaled US\$19,302 million. This was due to the 6.0% y/y hike in average prices, which offset the 5.0% y/y decrease in volumes derived from the lower supply resulting from the previous crop and the refusal of producers to sell their production at the end of 2013.

Exports of fuel and energy amounted to US\$5,252 million; 23.7% below 2012 as a consequence of the 19% y/y reduction in exported volumes, and to a lesser extent, of the 5.0% drop in prices. The reduction in exported volumes was explained by a decreased exportable balance caused by lower energy production and higher internal demand. With respect to sub-sectors, the main drops were observed in exports of crude oil (34.0% y/y) and fuels (16.0% y/y).

Imports moved up as a consequence of the recovery of economic activity, the flexibilization of trade controls and the higher demand for energy inputs. Thus, foreign sales grew by 8.0% in 2013 and totaled US\$74,003 million, its highest historical value.

In a breakdown analysis, all segments, except intermediate goods, performed expansively and recovered as against the previous year. The major increase was recorded by the purchase of fuels and lubricants which totaled US\$11,415 million, a 23.1% y/y rise. Such increase was the result of the significant growth in the volumes requested to meet internal demand (24.0%), while prices fell 1.0%. Purchases of consumer goods rose 15.0% y/y and amounted to US\$14,604 million due to the 11.0% and 4.0% y/y increases in volumes and prices, respectively. The import of automobiles stood out and expanded 32.0% y/y while the remaining consumer goods recorded a 3.0% y/y increase. To a lesser extent, purchases of capital goods grew 8.0% during the year and reached US\$12,767 million as a result of the 5.0% and 3.0% y/y improvements in volumes and prices, respectively. The acquisition of spare parts and accessories for capital goods amounted to US\$15,419 million and recorded 7.0% and 5.0% y/y increases in volumes and prices, respectively. The purchase of intermediate goods contracted 2.0% y/y, though its share in total imports was the most significant one, totaling US\$19,573 million (26.5%). The reduction derived from the 5.0% drop in volumes, partially offset by the 3.0% rise in prices. This was due, among other factors, to the lower demand for iron as a result of the stop in the iron and steel production.

With regard to bilateral commercial relations, the main target of exports was MERCOSUR, which acquired 28.7% of total volume. The result of this trade was a US\$3,243 million surplus, mainly influenced by export transactions with Venezuela. Trade with the ASEAN countries, South Korea, China, Japan and India should be highlighted. Overall export transactions grew 14.0% y/y and purchases rose 12.0% y/y. Total trade with this region amounted to US\$32,981 million and accounted for a US\$1,443 million deficit. Trade with the European Union and NAFTA countries also had a negative performance. The balance with the remaining ALADI countries and Chile was positive.

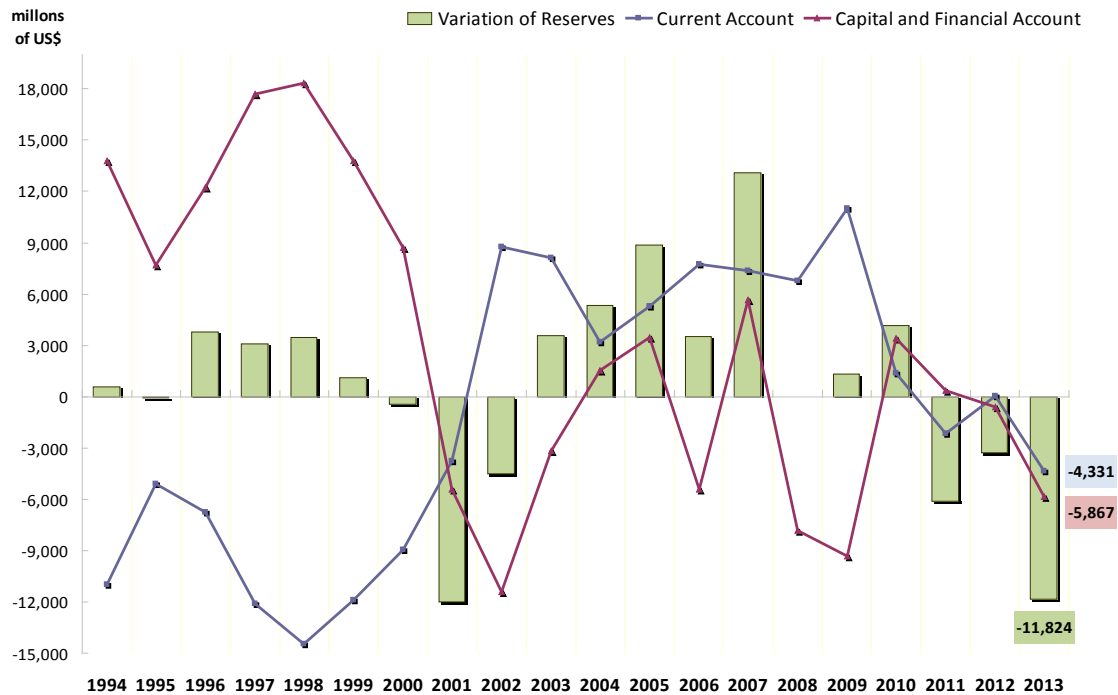
The deficit in the trade of services deepened in 2012. The local currency situation resulted in an increase in foreign purchases of services in a context of export deterioration. This higher deficit derived from the reduction in the surplus generated by corporate, professional and technical services together with an increased deficit in the payment of royalties, transport and trips. This way, the year ended with a negative balance of US\$5,103 million, US\$1,737 million above the previous year.

The return-on-investment account, the third item of the current account, improved with respect 2012 due to an increase in interests and profits generated abroad and a reduction of payments under the same captions. However, the total result of the account was a large deficit (US\$10,708 million), US\$954 million below the figures attained a year ago.

The drop in the balance of trade and the widened deficit of the services account caused a fall in the current account balance as against 2012. The deficit of the current account balance amounted to almost US\$4,330 million (0.7 p.p. of GDP).

The capital and financial account recorded a net capital outflow of US\$5,867 million. Such outflow intensified due to lower private and public exposure to the foreign currency debt currency as a result of both, the suspension of current financing and the foreign debt reduction policy implemented by the Government. The net effect of the current and capital accounts' balances showed that foreign currency outflows far exceeded inflows, which caused the BCRA to reduce its stock of international reserves by almost US\$11,824 million (including swap adjustments), thus recording a three-year drop.

## Balance of Payments In millions of US\$



Source: INDEC (National Statistics Institute)

## 2. Evolution of the Microeconomic Activity

### 2.1. Management Policies

#### 2.1.1. Financial Policy

In 2013, the Bank continued working within the framework of a financial strategy aimed at providing the financing necessary to support the strong credit activity undertaken by the Bank, which enabled to double the loan portfolio in the last two years.

Apart from ensuring funding for the granting of loans, the Bank worked hard on optimizing costs with the purpose of maximizing the financial brokerage margin and, at the same time, maintaining adequate liquidity levels.

In order to achieve the goals set for the Fiscal 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. In this sense, different surveys of the economic and financial conditions and balanced scorecards were elaborated to follow up the main variables affecting the sector and to make the corresponding adjustments according to the market's situation and the Bank's financial needs. This thorough analysis enabled a strict control on liquidity in a year in which loans strongly grew as against the Financial System performance, and deposits increased with lesser dynamism both, in the case of the Bank and the rest of the financial entities. This could be achieved due to the coordinated work with the commercial area to adjust the amount of loans granted to financial flows.

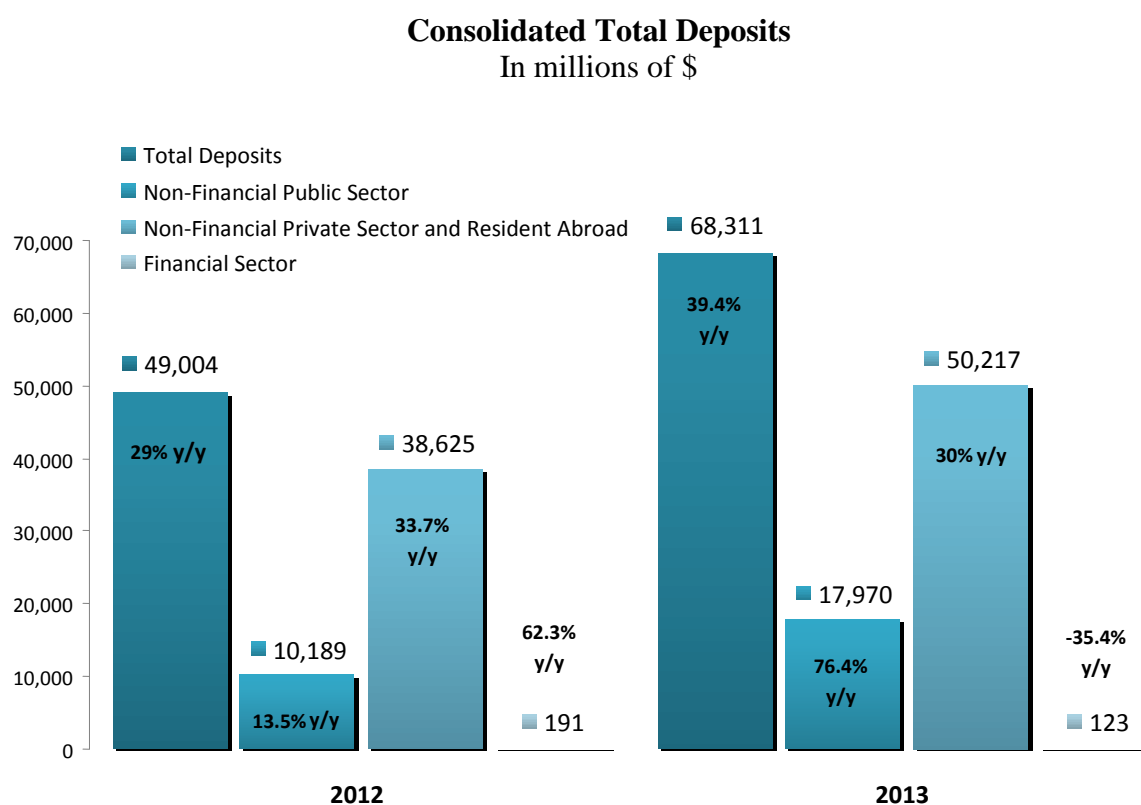
Likewise, the borrowing rates were continuously monitored and adjusted only when necessary, thus efficiently accompanying the market trend and maintaining an adequate spread between the Bank's own deposit rates and those of the rest of the System.

Therefore and as a consequence of the optimized funding cost, the Bank also made a careful monitoring of the margin between lending and borrowing rates, thus ensuring that it keeps the necessary level to obtain the estimated financial income.

### • Evolution of Deposits

In 2013, the Bank's total deposits grew at a more rapid pace than the System's deposits; in 2012, its total deposits had a similar improvement to that of the market, but with an uneven evolution per segment and currency.

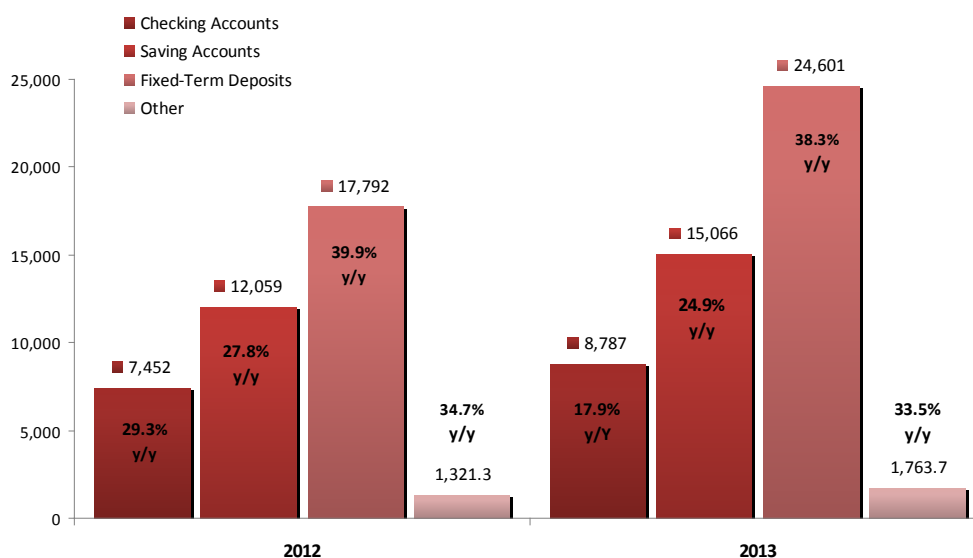
During 2013, deposits within the Financial System increased at a rate similar to that of 2012, while the Bank's growth rate was 10 p.p. over the previous Fiscal Year. This was mainly due to the strong improvement in public sector deposits, mostly provincial placements. Moreover, private sector deposits showed an upward trend, though at a lower pace. However, due to their increased participation in total amount they represented a 60% of the year-on-year increase.



The Bank's public deposits expanded by 76.4% y/y, thus recovering 5.5 p.p. of their participation in total deposits after having lost 2.8 p.p. in 2012. Private sector deposits also showed a favorable performance; local currency placements surpassed the growth rate of the System while those in foreign currency fell at a slight pace. In 2013, they rose by 30.0% y/y.

The breakdown analysis by type of deposits showed a higher increase in fixed-term deposits. This situation was very similar to that of 2012 when both the Bank and the System beat a record, ending 2013 with a 38.3% y/y rise. Demand deposits decelerated, since current account expanded by 17.9% y/y as against the 29.3% y/y recorded in the previous year. Saving deposits performed similarly, showing a 24.9% y/y as against the 27.8% y/y of 2012.

### Private Sector Deposits In millions of \$



Among term deposits, the improvement of retail deposits (up to \$1 million) stood out, showing a better performance than that of the whole Financial System, while corporate deposits (over \$1 million) recorded an increase slightly below the market.

The Bank's share in total deposits of the Financial System grew from 8.2% in 2012 to 9.1% in 2013 and remained second in the ranking. The Bank's share in peso and dollar deposits from the public sector grew from 6.2% to 8.8%, maintaining its second place in the ranking. With respect to private deposits in both currencies, the Bank's share in the market slightly improved from 9.0% to 9.1%, thus remaining third in the ranking. Fixed-term deposits and investments recovered the second place lost in 2012, growing from 9.5% to 10.1%.

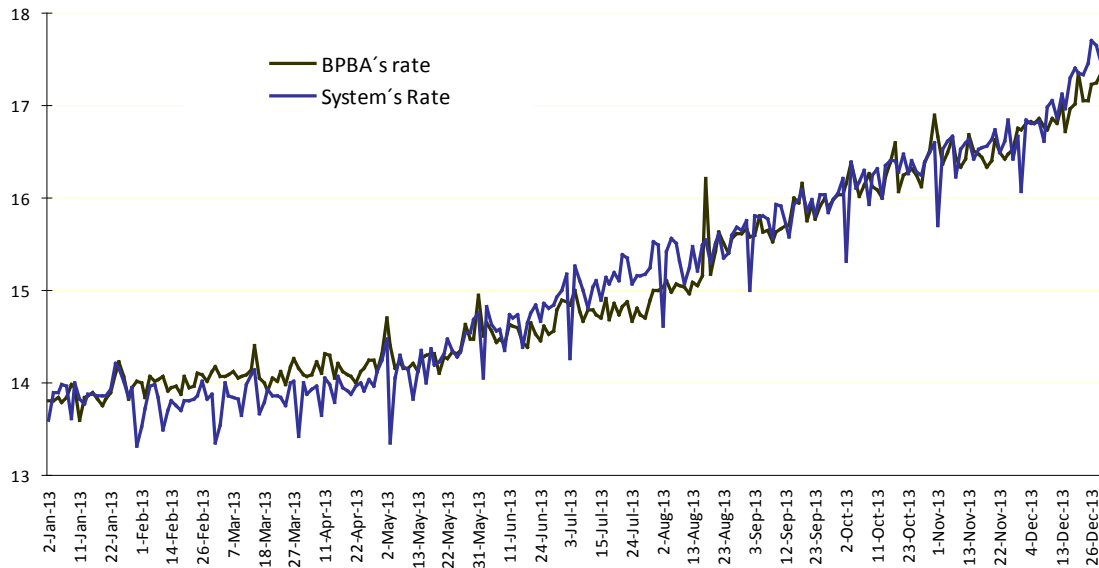
#### • Evolution of Borrowing Interest Rates

During 2013, borrowing rates showed an upward trend as a consequence of the macroeconomic context and of a greater demand of loans as against deposits, thus reducing the liquidity of banks. Interest rates offered on retail and wholesale fixed-term deposits from the private sector showed a more sharply evolution as of May. In both segments, the Bank and the Financial System performed similarly.

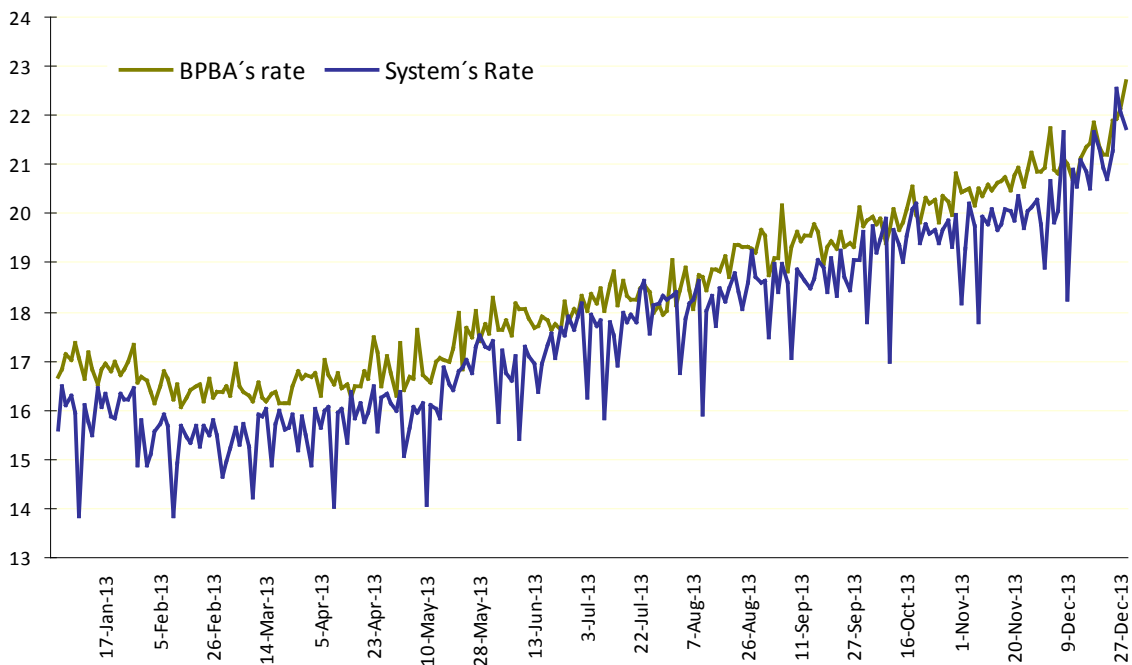
Interest rates paid by the Bank to the retail private sector during 2013 showed an average equal to the rest of the entities, recording monthly averages slightly higher in the January to May period and lower in the subsequent months. On the contrary, in the case of corporate deposits, the monthly average interest rate stood systematically over market values, although below 0.8 p.p.



### Evolution of Rates: Retail Private Sector 4-day average mobile rate



### Evolution of Rates: Wholesale Private Sector 4-day average mobile rate



#### • Capital Markets

During 2013, the purchase/sale of the government securities in the Bank's global portfolio took place, optimizing the risk-yield ratio. Likewise, management of the third party structured products and government securities portfolio amounted to \$1,051 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. At the same time, the Bank acted as arranger and underwriter of the Global Program for the Issuance of YPF S.A. Medium Term Debt Securities.

## • Financial Business

Through the Board of Directors' Resolution No. 1916/13 of November 28, 2013, the Financial Business Management was created. It coordinated a new commercial strategy with the business units, under the slogan: "Banco Provincia does not offer financial products but commercializes an integral financial service".

During the year, the Bank launched campaigns destined to raise funds so as to satisfy the expected greater demand for loans. Likewise, new customers from the private sector (both retail and corporate) were attracted and the Bank maintained an active presence in social networks such as Twitter and LinkedIn, among others.

The Bank's Mutual Funds improved, doubling their capital and significantly increasing the number of qualified customers. The product "Fixed Term Deposit at Pre-agreed Rate" was created, improving the Bank's web platform (BIP) so as to offer this product to the above mentioned customers regardless their location.

A large number of business units were visited and more than 800 agents were trained on the Bank's financial products, offering them basic tools to negotiate and analyze competitors. Moreover, the Bank participated in several business rounds, where it strengthened the contact with customers. At the same time, it had broader participation in conferences, meetings and fairs in direct contact with companies.

The Bank worked hard to obtain a greater relative increase in the retail private sector deposit portfolio, thus contributing to the atomization of deposits and obtaining a higher *share* in the retail sector as against the market.

In view of the need to have presence in those Regional Centers with greater penetration potential, officers of the Investment Unit were assigned to Junín, Mar del Plata, Morón, Olivos and Tandil Centers.

The taking of corporate deposits was included among the goals defined for business units; at the same time the weighting of deposits in the trade matrix was increased in order to significantly expand loan volumes.

Moreover, commissions on purchase/sale transactions were adjusted. With the purpose of attracting new businesses, the synergy with the companies of Grupo Banco Provincia was strengthened. The Bank continues cooperating with the Government of the Province of Buenos Aires in the placement of bills, which up to date totals \$9,100 million.

Mention should be made that special facilities for qualified customers' service are being refurbished.

### 2.1.2. Commercial Policy

In the context described in paragraphs 1.3 and 2.1.1 above, the Bank's commercial actions continued focusing on different segments and activities with the purpose of consolidating market penetration without damaging the Bank's social role set forth in its Charter.

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

A 32% annual increase in total income from services. Taking into account volume and growth, the main contribution derived from services to the private sector, which grew by 33% y/y, due to the relative increase in consumption levels, the significant expansion in the number of credits granted and the adjustment of the fee schedule in line with the Central Bank's rules and the challenges imposed by the market. Income from fees charged by the Bank's foreign offices (Sao Paulo and Montevideo) on account of import and export transactions as well as securities management also contributed to such increase.

A 46% y/y growth in total placements (\$39,018 million), mainly derived from the 51.9% y/y increase in corporate lending (\$30,088 million), and to a lesser extent, the 33.1% y/y rise in loans to individuals (\$8,764 million), including mortgage loans.

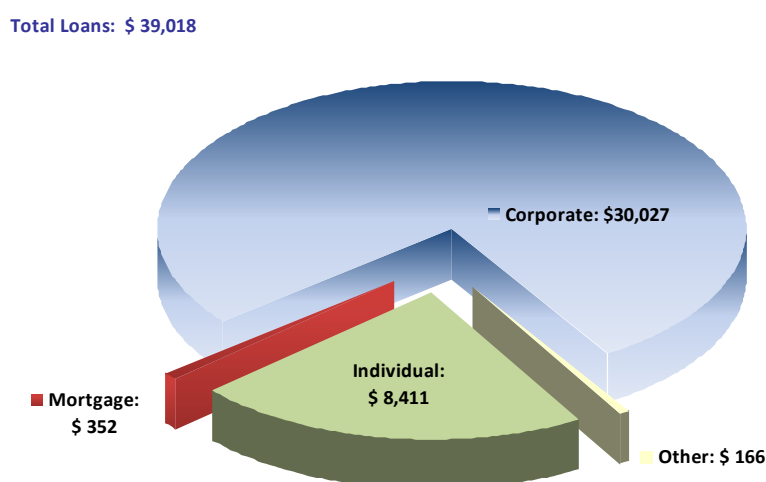
At the end of the fiscal year, the domestic loan portfolio grew by 46.0%, totaling \$38,043 million. The balance growth which totaled \$11,950 million was mainly due to the rise in loans to companies (56.8%), and, to a lesser extent, to individuals (37.2%).

Comparing with the rest of the banking system, total loans to the non- financial private sector performed better, with a 46.0% y/y growing pace, surpassing by 15 p.p. the pace recorded by the whole system; thus, their share in total amount increased by 7.67% (1 p. p.).

### 2.1.2.1. Loan Activity

The Bank granted domestic loans for \$39,018 million during 2013, \$12,269 million above the amount lent in 2012 (45.9% y/y). The 77.1% of loans were destined to the corporate sector for \$30,088 million, which meant a 51.9% y/y expansion.

**Breakdown of Loans in 2013**  
Private Sector – In millions of \$



Corporate lending annual balance grew about 57%, while, to a lesser extent, loans to individuals rose by 37%. In both cases, as well as in the aggregate amount, profits were recorded, especially in the corporate sector where the percentage point was surpassed during the year. With respect to corporate lending, mention should be made of loans granted through discount of payment checks, working capital, purchase of capital goods, assistance to micro-businesses, subsidized facilities (productive investment and bicentennial loans), loans to provincial suppliers and contractors and to some segments of the agricultural sector (dairy, livestock and meat). In the case of loans to individuals, loans granted to civil servants (especially to public administration employees and beneficiaries of the Social Security Institute (IPS)), and, almost to the same extent, credit card financing to clients in general, were very important .

#### 2.1.2.1.1. Loans to Companies

In 2013, the Bank focused on consolidating financing both to individuals and companies. With respect to corporate loans, exclusive commercial strategies were implemented to finance the purchase of new capital goods.

During the year, the Bank continued working according to the BCRA's credit rules set forth in Communication A 5449 "Credit Facility for Productive Investment". In this way, the second tranche (January - June) and the third tranche (July-December) were implemented. An annual 15.25 % fixed interest rate was fixed for loans of up to 36 months, while for loans over 36 months, as from installment 37, the Badlar rate plus four basis points was established. It should be mentioned that partial disbursements were allowed, extending the term for a six-month period. Both tranches complied with the guidelines provided by the Central Bank. The economic situation required the Bank to improve some of the terms and conditions established. Among such improvements, the term was extended up to 60 months. In order to support this investment facility, a 15.01% fixed interest rate at a 36- month repayment term was set for the first tranche "Working Capital – 190<sup>th</sup> anniversary", while a 17.0% fixed interest rate was set for the second tranche. As from the third tranche, the Central Bank provided for staged Working Capital to support this last segment. Likewise, the Bank requested the regulatory body to include all those current subsidized facilities with a lower or equivalent interest rate to that proposed by the Central Bank.

At the same time, the Bank continued offering investment facilities for used goods with differential interest rates for those companies with business potential. It also continued offering products with the purpose of improving the quality of processes and minimizing the environmental impact of external negative factors. With this purpose, loans were granted for clean production and acquisition of technology in order to mitigate the environmental impact, among others.

In the case of the Fuerza Productiva Program, Tranche III, destined to the acquisition of capital goods and working capital associated to investment, tourism, reconversion for clean production and agricultural machinery, which offers 100% financing at a 60 month-term, interest rates were reduced in the following subprograms: Industrial Parks, Cooperative Development and Software Development, and Information Services

Likewise, the offering of subsidized credit facilities for the agricultural sector was authorized.

The Bank signed new agreements with suppliers of machinery and capital goods in order to maximize the customer portfolio in all the productive activity sectors, which enabled the Bank to diversify its loan portfolio. One of the strategies adopted to achieve this goal included the use of information gathered from different fairs where the Bank had an active participation, generating businesses that may increase the industrial and agricultural portfolio.

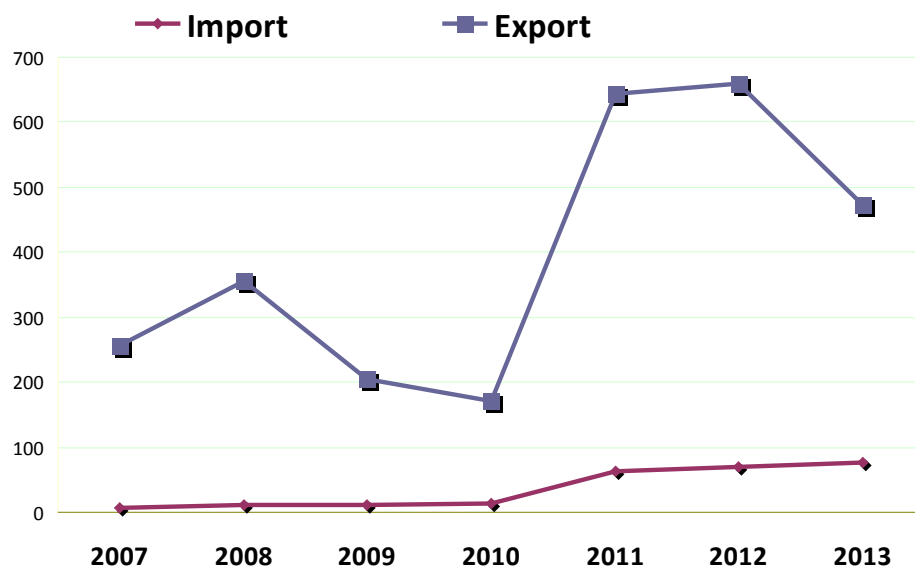
The "financing program for companies involved in strategic value chains of the province of Buenos Aires" continued and is expected to provide a more detailed scenario of the micro economy of those companies as well as the understanding of their strategic circuits. So, companies will be able to expand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

The "Amortizing loans in arrears/ advance on wage payments" product intended to meet organizational and specific needs of companies helped to avoid potential traumatic interruptions in the business cycle in those moments in which companies must meet seasonal expenses and face certain difficulties regarding liquidity (payment of salaries and semi-annual bonuses). The Bank was also present when it was necessary to attend social emergency situations, which derived from the unexpected impact of meteorological phenomena on the provincial territory. For these cases, the Bank offered loans with attractive conditions 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.

During the year, the Bank lent US\$548.34 million under import and export credit facilities, recording a 25% contraction with respect to 2012, mainly as a result of the drop in export credit facilities granted to companies. In a breakdown analysis, 511 Export Credit transactions for US\$472.13 million, out which US\$469.90 million corresponded to 469 Pre-Export Financing

transactions and 567 Import Financing transactions for US\$76.22 million were carried out. This showed a high concentration of financing in dollars which amounted to US\$52.53 million

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



- **Agricultural Sector**

In 2013, the Bank continued providing financial assistance through a wide range of products to agricultural small and medium enterprises of the Province of Buenos Aires, in a joint effort with the Provincial Ministry of Agricultural Affairs and the National Ministry of Agriculture, Livestock and Fisheries.

Its most outstanding products included the Financing Program for the Production of Cattle and Meat (investment and associated working capital), the Financing Program for Cattle Raising (investment and associated working capital), 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, more than 150 special agreements subscribed under the Procampo card with input suppliers allowed producers to benefit in many cases from 0% rates for terms of up to 360 days.

The favorable turnover of this sector was evidenced by the placement of \$9,059 million, equivalent to a 65% y/y increase. Out of this amount, \$1,300 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.
- Financing Program for Cattle Raising: rate subsidized by the National Ministry of Agriculture, Livestock and Fisheries.
- Financing Program for the Dairy Sector: rate subsidized by the National Ministry of Agriculture, Livestock and Fisheries
- Working Capital for the production of milk and meat: rate subsidized by the National Ministry of Agriculture, Livestock and Fisheries.
- Working Capital for the production of wheat, corn and sunflower: rate subsidized by the National Ministry of Agriculture, Livestock and Fisheries.





- Procampo Card: under the management of the Agricultural Banking area, it recorded a 100.4% rise in consumption with respect to the previous year and financed \$926 million at reduced rates.

This financial assistance was supplemented by other credit tools for development, working capital and investment, including: Loans destined to summer crops, winter crops, retention of cereal grains, working capital, discount of third-party deferred payment checks, the Financing Program for companies involved in strategic value chains of the Province of Buenos Aires, Investment financing and the Credit Facility for productive investment.

The delinquency rate for these facilities to the agricultural sector was just 0.19% 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 \$270 million may be used in 2014.

#### • **Industrial, Commercial and Services SMEs and MiSMEs**

During 2013, SME Banking, through its 17 business officers, contacted over 600 companies, visited the premises of about 400 businesses and assigned credit ratings to more than 300 new SMEs.

The year 2013 was characterized by the fresh impetus given. Management authorities made their best efforts to attract projects to finance new investments and installed capacity expansion in a context in which the Government, both provincial and national, encouraged that credit be redirected towards investment facilities.

The number of projects for new investments and expansion of installed capacity submitted under Tranche III of the *Fuerza Productiva* Program (facility subsidized by the Provincial Ministry of Production, Science and Technology) totaled 43 for \$56 million, out of which 25 loans amounting to \$23 million were finally granted.

Under the "Credit Facility for Productive Investment", a total amount of \$716 million was lent through 231 loans. Mention should be made that this facility is a highly competitive tool since it offers an annual fixed nominal interest rate of 15.25%. Thus, the Bank surpassed the amounts set forth by the Central Bank in terms of deposits, ranking second in the banking system, after Banco Nación. Likewise, the Bank continued with the Bicentennial Productive Financing Program, with an \$85 million disbursement.

With regard to loans destined to development and working capital for SMEs, on the occasion of its 190<sup>th</sup> anniversary, the Bank launched a credit facility at a fixed interest rate to provide companies with competitive financial costs. More than \$380 million were lent through different credits with cap amounts of \$4 million, maximizing the number of loans and assisting the largest number of companies.

More than \$500 million were disbursed through the other facilities for working capital. Additionally, the Bank conducted special campaigns and developed several tools that promoted the discount of deferred third-party checks, a lending facility greatly demanded by SMEs. The annual discounted volume totaled \$3,400 million especially during the second half of the year, when private banks evidenced a contraction as a result of the significant increase of the system's financial costs.

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



In the second half of the year, SME Banking participated in various Business Rounds carried out in different cities of the province of Buenos Aires, thus bringing the Bank closer to companies and strengthening value chains.

During 2013, the Bank achieved almost all the commercial and lending goals, thus complying with the pertinent action guidelines for the SME Banking area and consolidating a new business model started in late 2009. SME Banking has become an important channel that assists small, medium and large enterprises that choose to operate with the Bank.

- **Corporate Banking**

During 2013, corporate customers continued demanding credits and the Bank lent \$7,976 million, 27.9% over the previous year. This amount accounted for more than 26% of total corporate loans granted by the Bank during 2013.

This significant volume of transactions translated into an important growth in the portfolio balance as at December 31, thus recording a historic peak since the creation of the area, reaching \$5,000 million, 47.6% over 2012 and accounting for 29.8% of the total balance of the Bank's corporate segment.

- **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 76,181 loans for \$797.2 million have been granted. In 2013, 26,658 loans were granted for \$404.3 million, accounting for an 87.5% y/y rise. Likewise, the program has already been implemented in 62 Bank's branches with the participation of 260 professionals especially trained to assist such segment.

#### **2.1.2.1.2. Loans to Individuals**

In 2013, \$8,764 million was lent to individuals, including mortgage loans. Non-prerequisite consumer loans stood out (almost \$6,300 million) and advances on wage payments performed favorably, increasing four folds as against the previous year.

In order to meet market demand, cap amounts for consumer loans were increased up to \$300,000. The Bank continued granting mortgage loans for the purchase of a sole family house of permanent occupancy, and launched a new credit to finance the acquisition of second houses in order to cover the demand of such segment, which nowadays only very few banks take into account. With respect to loans granted to those affected by meteorological phenomena, almost \$550 million were loaned, even though this issue does not mean a business for the Bank but a responsibility assumed according to the Charter's guidelines.

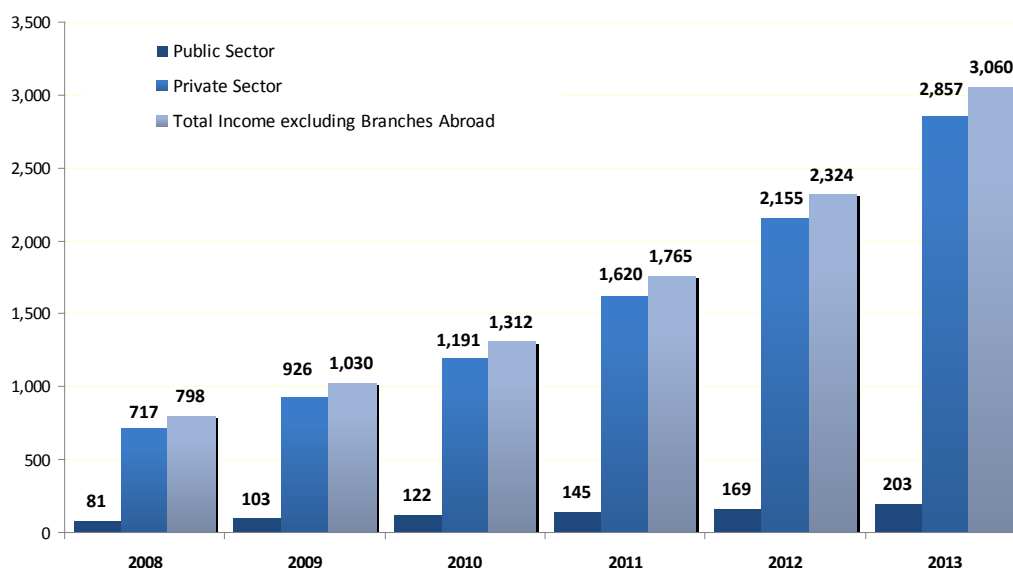
#### **2.1.2.2. Service Management and Results**

- **Income from Services**

In 2013, income from services totaled \$3,060.4 million, recording an increase of 31.7% y/y. Almost 93% of such amount derived from products commercialized within the private sector,

which amounted to \$2,857.2 million (+ 32.6% y/y), while products commercialized within the public sector totaled \$203.2 million, 20.5% over 2012.

### Evolution of Income from Services In millions of \$



In 2013, funds obtained through Visa credit card rose by 40.9% y/y, (+ \$332.3 million) and contributed 47.3% to the total increase in income from private sector services. Income from loan transactions amounted to \$68.5 million, being the second item which explained the dynamic of income from private services. To a lesser extent, debit cards, current accounts and safe security boxes collectively accounted for the additional 22.7% of total income from private services. Mention should be made of income from savings accounts, Procampo Card and Grupo Provincia, which, in aggregate, totaled \$89.9 million.

The 66 % of income derived from services rendered to public agencies corresponded to collection services.

Operations carried out by the Sao Paulo branch generated commission income for US\$53,562, which represented an 18% decline. The sectors that most contributed to income were Exports (54% or US\$28,923) and Imports (46% or US\$24,639).

Commission income of the Montevideo branch totaled US\$147,388, a 16% increase resulting from a higher demand for trading transactions. The administration of third party securities generated US\$87,747, accounting for 57% of total commissions.

- **Electronic Means of Payment**

In 2013, purchases with credit cards increased approximately 38.8% with respect to the previous year. This relative strength showed by the Bank also translated in the improvement of the card activation process evidenced in the active/ valid cards ratio.

Below there is a detail of some of the guidelines implemented this year:

Individual segment:

- In line with the agreement between employers and employees regarding salary increases, an almost 23% rise in the purchase limit of public sector credit cards was authorized.
- In order to attract the university community, commercial agreements with Universidad Provincial del Sudoeste, Universidad Provincial de Ezeiza and Universidad Pedagógica de la Plata were signed.

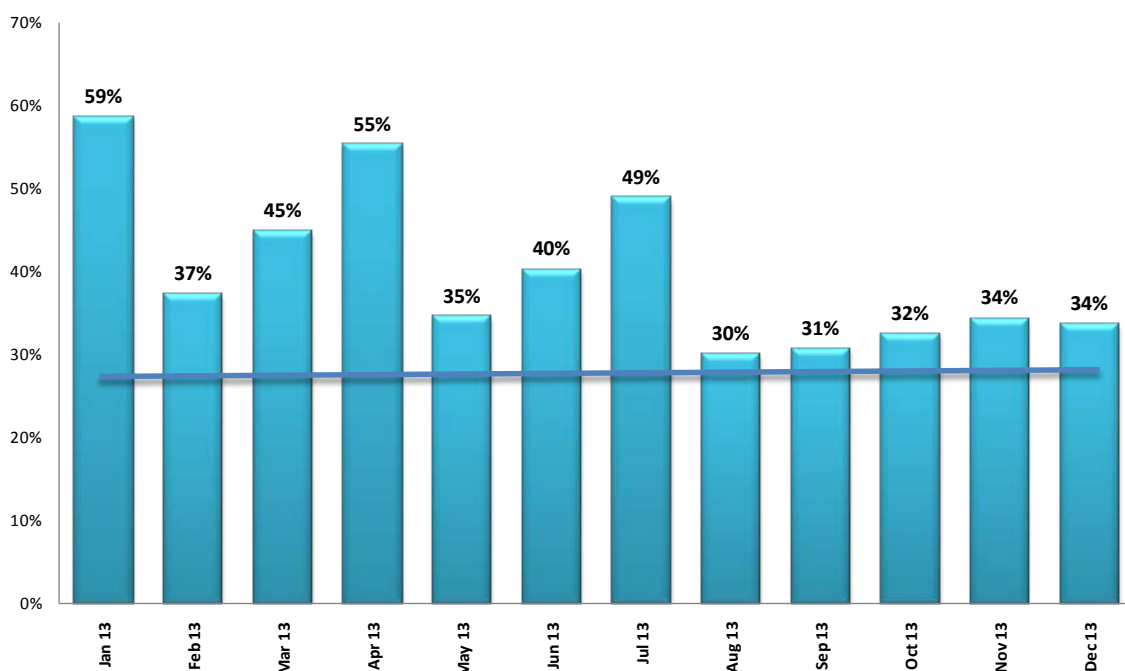
- The age limit for granting credit cards to minors was reduced (from 16 to 14 years old).
- Agreements with institutions oriented towards social, commercial and sport activities were signed in order to offer cards. The Bank developed commercial relationships with sport clubs, associations, country clubs, social security agencies and professional associations which gather professionals of different areas.
- The average purchase limit per active account was increased according to the goal defined, thus reaching the amount of 1,2 million active cards.
- Visa credit cards were pre-embossed both for public and private sectors. In this process, almost 95,000 cards were issued.
- The amount of 125,000 Mastercard cards were issued, also oriented to the above mentioned sectors.

Corporate segment:

- Formalities were made more flexible, enabling Business Units to grant courtesy cards with an initial credit limit of \$48,000 to the agricultural sector.
- The number of agreements with agricultural sector companies significantly increased. This will enable such companies to purchase seeds, agrochemicals and other commodities necessary for production.
- In a joint task with the area in charge of monitoring the branch network, the total number of Procampo cards was analyzed so as to revise and update their amounts, which will enable to grant benefits to users and gain the loyalty of such segment.
- Actions were taken to grant packages of products and services (agreements for the payment of wages and salaries, for example) aimed at attracting employees of the Bank's related companies.

In the case of customer's benefits (tool used to promote consumption and activation of cards), the Bank had a strong presence in cultural events, celebrations and special dates aimed at promoting tourism and the development of regional communities. The Bank had a remarkable presence in the Book Fair, summer actions, Holy Week, Father's Day, Children's Day, Bank's Anniversary, Mother's Day, Commercial Centers in the Interior of the Province and Shopping Centers. It also launched promotional campaigns oriented towards land transportation and air flights operated by Aerolíneas Argentinas. In this segment, the Bank began to compete with other banks regarding mileage programs; this caused that purchases related to trips, tourism, airlines and hotels doubled during the fiscal year.

**Total Purchases with Credit Cards**  
% y/y monthly variation %



- **Locations**

In 2013, the Bank took different measures to optimize and strengthen the rendering of services to customers. Taking into account BCRA's restrictions on the granting of licenses for the opening of new Business Units, the Bank focused on those units requiring location or category adjustments to improve their performance.

In this regard, the former Pila Delegation was recategorized as a branch due to its wide credit potential in the regional private and public sectors. Both, the community and the Bank will benefit from this measure.

With respect to relocations, Nueva Pompeya branch was moved to a new building to meet the customers' and the staff's needs. For the same purpose, the Bank has purchased different premises such as Libertad and Bahía Blanca.

Under an agreement entered into between the Bank and the Lawyer's Professional Association of the Province of Buenos Aires, the Lawyer's Professional Association Annex building was opened in Lomas de Zamora.

A total of 97 new ATMs were installed; 31 old devices were replaced and 66 units were incorporated in areas where the Bank identified an increased demand, a greater number of transactions and a larger volume of debit cards. To this end, the Bank leased premises, used facilities granted by the Province of Buenos Aires, its Municipalities and local cooperatives, and executed contracts under the "Convenience ATMs" agreement entered into with Provincia Net.

The expansion and improvement of the electronic banking units located at the lobbies of Business Units, public agencies, and Provincia Net premises helped increase installed capacity and broaden the scope of services, even setting profitability aside. The Bank's network expanded due to the construction of new lobbies in neutral locations, standing out Mar de las Pampas and Cariló on the Atlantic coast.

The Board of Directors approved the "Safe Deposit Box Installation and Enlargement Plan", which involves the acquisition of 126 vaults and 10,044 safe deposit boxes, thus maximizing branches' profitability and services offered to customers.

- **Foreign Trade**

For 2013, the Bank projected a 22% increase in Income from Services, focusing on innovation and customer service. For that purpose, it redesigned its Foreign Trade web page, consolidated the commercial team's regionalization, built customer loyalty, and attracted new customers with the support of Business Units.

These actions translated into a 46.2% y/y increase in income from Foreign Trade services, thus surpassing the projected goal.

### 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 2013, the Credit Assessment Management kept on developing and applying credit analysis to assess the Bank's borrowers. Upon analyzing 11,114 cases, amounts disbursed reached \$23,154 million (74.0% over the previous year). The support for the assessment of investment projects in



the Province of Buenos Aires totaled \$2,452 million and comprised 2,256 transactions, a 310% growth over 2012. Such figure mainly derived from the credit facility for Productive Investment.

With respect to loans to Individuals during the year, the Bank granted \$8,411 million, a 51% rise over the previous year, resulting from 555,575 applications analyzed by the Scoring system.

#### 2.1.4. Loan Recovery Policy

In 2013, 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 settlements of debts 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 as at high risk of insolvency and uncollectible.

Under the out-of-court recovery program for loans exceeding their early delinquency period, 11,735 cases were settled during the year for a total amount of \$224 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.

Particularly, the Bank strengthened its relations with provincial municipalities, providing financial assistance and signing new agreements for the upgrading of their collection and payment processes. For this purpose, a commercial sector was created to assist municipalities with their enquiries and satisfy their operative needs. As a result of the customized visits to districts of the Greater Buenos Aires and the interior of the Province, the Bank entered into 78 new agreements.

It continued financing infrastructure works through a credit facility destined to this sector. Thus, 24 new loan applications for \$198 million were received, totaling 93 requests for \$963 million since the launching of the facility. At the close of the 2013 financial statements, 50 transactions amounting to \$523 million had been settled, and the remaining 43 loan applications were at different stages of the review and analysis process by the pertinent authorities.

In line with the Provincial Administration policies, new administrative and operative regulations were adopted. These measures allowed the Bank to have more control on its budgetary management. These policies set the creation of the Treasury Single Account (TSA) that enables public organizations to better manage their funds. The Bank also started a process for migrating all payment transactions involving the main agencies to electronic means of payment in order to eliminate the check payment system and reduce operative costs.

Further progress was made on the arrangement of agreements for the implementation of alternative collection and payment channels. Thus, The Bank entered into 39 agreements with Link Pagos and 26 with Pago Directo. These actions were aimed at reducing crow flow to

treasury offices and lightening the operative workload of Business Units so as to provide better Bank-wide customer services.

With regard to the payment of retirement and pension benefits, family allowances, and social plans, the Bank offered beneficiaries new alternative collection channels. Therefore, it provided beneficiaries with better assistance and reduced the amount of customers at cash desks. In this regard, out of the 1,100,000 beneficiaries of retirement and pension benefits and family allowances, 1,030,000 (94%) already hold an account and a debit card. Out of the 730,000 beneficiaries of social plans, 97% has migrated to other collection channels, using ATMs or reloadable cards for the purchase of food.

#### 2.1.6. Budgetary Policy

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

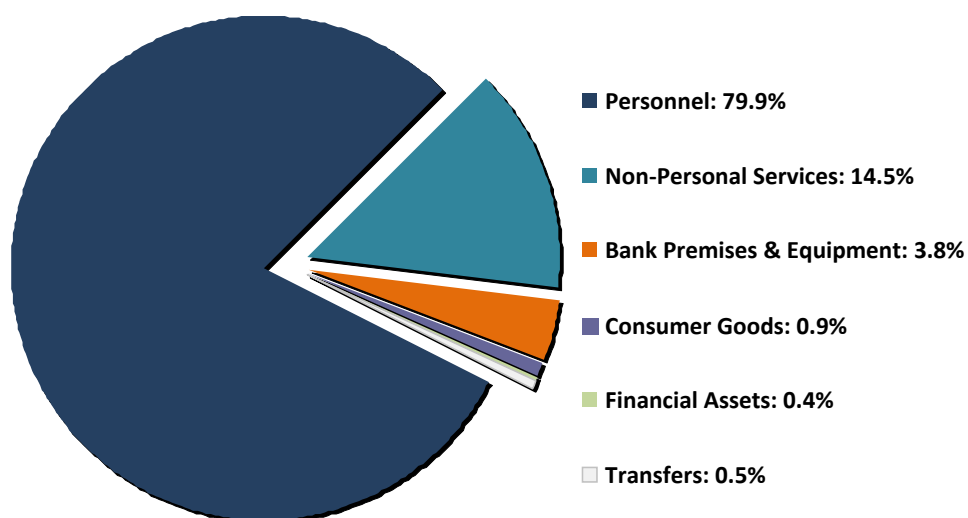
Investment decisions were oriented towards the expansion and improvement of the Bank's branches. These actions were aimed at increasing electronic banking penetration, implementing strategic plans destined to refurbish and maintain buildings, preserve premises, furniture and vehicles and modernize air conditioning, central heating and vertical transportation systems. The Bank also planned to continue the enhancement of its electronic channel solutions, particularly Internet and Mobile Banking, and upgrading of the equipment located at Head Office and branches.

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, sanitary services, software maintenance and feasibility research projects.

The Bank's Expenditure for the 2013 fiscal year broke down as follows: Personnel Expenses \$4,744.4 million; Non-personal services, \$1,047.3 million; Bank Premises and Equipment, \$704.1 million; Consumer Goods, \$71.8 million; Financial Assets, \$31.2 million and Transfers, \$30.3 million. This was balanced by Revenue estimates consisting of Income from Financial Transactions, Other, Services and Foreign Branches Transactions for an amount of \$6,629.0 million.

The difference between planned and actual Expenditure arose from a smaller investment of \$475.9 million in Bank Premises and Equipment (68% saving) and a lower spending of \$187.5 million in Non-Personal Services due to a reduction in prices obtained upon contract negotiations, accounting for \$700.08 million saving (26.8%).

### Breakdown of Expenditure – Year 2013



#### 2.1.7. Human Resources Policy

The Bank carried out appropriate staff analysis to identify current and future needs within its different sectors and levels. Once such needs were identified and different ways of treatment were considered, the Bank took actions regarding staff appointments.

During the year and jointly with the Operations and Branch Network Managements, business units were staffed with qualified management officers in the different sectors (Marketing, Back Office and Treasury). Therefore, the Bank's goal to fill all managerial position in branches was fully achieved, representing a new challenge to be maintained in 2014.

The Bank kept on fostering the development of staff potential through 29,493 actions on training. Under the Staff Development Model, the Bank organized four Level 1, two level 2 and two Level 3 workshops, attended by 622 employees from branches and central areas.

In order to expand the scope of training programs, the Bank implemented the use of the Campus Provincia e-learning platform. Since last February, this platform has received more than 103,969 visits and 16,526 self managed tests were passed regarding induction, banking career and other targeted courses. Through this virtual campus, 5,654 employees took the “Atención al Cubo” training course mainly oriented to strengthen staff skills on customer service and sales strategies.

The Bank created a special course for the Treasury sector. It was mainly destined to employees who wanted to occupy a higher position in this area. An amount of 226 employees participated in a 4 -month on-line training course.

A total of 130 officers attended Postgraduate courses and Executive Programs: 10 were trained at the *Fundación Iberoamericana de Estudios Superiores – Universidad Abierta Interamericana*; 7 at the *Universidad Católica Argentina*; 34 at the *Universidad de San Andrés*; 1 at the *Universidad del Salvador*; 1 at the *Universidad Argentina de la Empresa*; 33 at the *Universidad Austral*; 7 at the *Universidad Torcuato Di Tella*; 2 at the *Universidad Tecnológica Nacional*; 16 at the *Universidad de Buenos Aires*; 1 at the *Universidad Nacional de Rosario*; 9 at the *Instituto Tecnológico Buenos Aires*, 4 at the *Asociación de Bancos Públicos y Privados de la República Argentina* and 7 at the *Centro de Estudios Macroeconómicos de Argentina*

The Bank formulated an effective communications policy aimed at consolidating the institutional image, motivating employees and reducing the effects of informal contact. For that purpose, internal communications were improved through the implementation of 300 intranet announcements, 620 e-mail communications and 12 issues of the “El Pulso del Provincia”. Likewise, the use of “GPs” was consolidated as an effective inquiry tool. This enabled the Bank to analyze and update the information included in the employee's folder. With respect to “Mi

Espacio” virtual space, an e-mail distribution list with the names of the officers in charge of each Human Resources sector was created. This tool allowed the Bank to update information and more than 1,700 inquiries were received since its creation.

With regard to the policies established by the Health Area, the Bank kept on organizing the “Construyendo una Nueva Etapa” monthly workshop with the participation of 190 future retirees.

The Bank developed the “Pro-Optimización del Clima Laboral” program for the prevention of psychosocial risks. Professionals from the Labor Psychology Department visited 30 offices to mitigate interpersonal conflicts affecting employees' performance and health.

During 2013, 21 meetings were held with relatives and co-workers of death-in-service employees.

The Bank continued implementing medical examinations based on employees' needs and roles. Thus, forty employees from the Currency Processing sector participated in the Risk Factor Detection Program. Under the Preventive Health Program, 74% of total Treasury staff (Head Office, Home Office and City of Buenos Aires Regional Center) was examined.

In response to the Labor Inclusion Process contained in the Legal Regulation for People with Disabilities (Law No. 10592), 65 visits were made to the working place of the 18 disabled employees to define their workload and monitor their inclusion process.

The Health Area actively assisted people affected by the floods that hit La Plata Regional Center as well as those damaged by the adverse weather conditions that took place in the City of Buenos Aires.

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

In compliance with internal regulations, the Bank terminated the employment relationship of 354 employees who were entitled to retirement benefits. Furthermore, 470 new employees joined the Bank and 401 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 2013 through a set of IT tools. Under the 2013 IT Operative Plan, the Bank carried out the following projects:

- Own Internet Banking Platform (*Banca Internet Provincia-BIP*).
- Mass Transfer and Registration Reengineering.
- New AR Plus Benefit Program.
- Benefit Management System.
- Document Discounting – Tranche Extension.
- Automation of Fixed-Term Deposits at Pre-agreed rates cancelable before maturity.
- Streamlining of loan Interest Rates - SUR System.
- Optimization of the Consumption Scoring System.
- Reengineering of the Web Site.
- New Unified Federal Clearing House.
- Currency Administration System.
- Taxes – Tax Rolls and Data Unification.
- ARBA Provincial Revenue Service: Upgrading of Real State Tax Collection System.
- Control of checking accounts exempted from, or with Reduced Rates of, the Tax on Financial Transfers.

- Customer's Profile.
- Optimization of the Minimum Capital Reporting System.
- Monitoring of Fees.
- Optimization of Direct Debit, Payment and Collection Services.
- Automation of Agreement Registration.
- Optimization of Processes and Controls – Anti-money laundering.
- MEP Automation System.
- Software Test Management System.
- Network Traffic Measurement.
- IT reengineering at branches.

#### 2.1.9. Risk Management Policy

During 2013, in line with the actions taken since the creation of the Risk Administration Management, the Bank intensified the implementation of regulations issued by the BCRA involving daily management. Mention should be made of Communication "A" 5394, which incorporates Basel Pillar III – Market Discipline that allows market participants to assess the information regarding capital, risk exposure, risk assessment processes and the capital adequacy of an institution based on data disclosed by each institution. Through Communication "A" 5398, regulatory amendments were introduced to the Risk Management Guidelines in Financial Institutions and management of integral and new risks was improved. Under this Communication, Financial Institutions shall develop an internal, comprehensive and global process to assess their capital adequacy based on their risk profile (ICAAP) and a strategy to maintain their capital level considering external factors such as the impact of economic cycle and scenario.

Like in previous years, the Information Regime related to the 2013-2015 Business Plan was issued with certain amendments and additions (Communication "A" 5431).

Under Communication "A" 5460, the BCRA introduced new mandatory regulations for financial services users aimed at mitigating operational risk. Thus, their implementation not only involves the compliance thereof but also improves customer service. The BCRA also issued Communication "A" 5515 amending the Information Regime related to 2014-2015 Projection and Business Plan. With respect to the economic capital calculation and capital adequacy assessment, a "Report on Capital Self-Assessment" must be submitted showing balance sheet positions at December 31 of each year and estimates arising from the capital planning process for the following two-year period.

In addition to the analysis and implementation of the above mentioned regulations and in order to contribute to the Bank's administration, the Risk Administration Management took different measures to comply with the agenda timely approved by the Board of Directors. Some of the actions taken were:

- Annual review of current risk management frameworks; creation and approval of the pertinent frameworks for new risks (Concentration, Securitization, Reputational and Strategic Risks).
- Imposition of management and contingency limits for significant risks; review and approval of an exception process in case of higher risks.
- Implementation of an Incentive Plan to reward members of the Bank's staff satisfactorily performing operational risk management tasks.
- Launching of a Dashboard with different early warning risk indicators to measure and monitor exposure to the main risks.
- Duly submission of Stress Test to the BCRA, prepared by the Economic Research and the Financial Policy and Projections Managements.
- Preparation and Approval of different methodological documents for implementation purposes (economic capital/interest rate, reputational, country, expected loss risks and economic capital-families and corporate portfolios; liquidity gaps in \$ and US\$, interest rate gaps, etc).



- Application of operational risk management standards for outsourced activities and/or services rendered by suppliers.
- Approval of the “Market Discipline” Policy and Strategy.
- Analysis of Grupo Banco Provincia’s risk management policy for its integration within the framework of the Bank’s management standards.
- Approval of New Products/Activities Policies and Procedures and issue of the pertinent risk analysis reports.

#### 2.1.10. Grupo Banco Provincia

Grupo Banco Provincia S.A. (Grupo Provincia or GP) is an organization majority controlled by Banco de la Provincia de Buenos Aires (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, and local governments.

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

At December 31, 2013, GP kept permanent equity interests in the following 13 companies, out of which 11 are controlled by GP.

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

(\*) In liquidation

- **Provincia Seguros S.A.- Property Insurance**

The Company, which participates in the market of General Insurance (property and group life insurance), recorded operations for \$2,190 million, out of which \$2,066 million was accrued during the year.

In 2013, the Company increased its production and promoted an “Action Plan”, the strategic purposes of which are based on a national sales network relationship plan, a territorial expansion plan, a business network loyalty plan, actions addressed to internal and external customers, and the development of new products and services.

In line with the purpose of improving the technical result and following the guidelines provided for by Resolution No. 32080 and other rules issued by the SSN, the Company worked on operational, regulatory and technical aspects, such as the amendment to technical and commercial conditions associated with funeral expenses insurance. Formalities were completed in order to obtain the approval of new plans, including Civil Liability Insurance against Malpractice of Lawyers, Paralegals, Accountants and Public Notaries. Likewise, Schedules of Rates applicable to different lines of insurance were adjusted.

With respect to the loss ratio, the claim cost was significantly affected by the severe floods that struck the City of La Plata and its surroundings and several areas of the city of Buenos Aires on April 2 and 3, 2013. Thus, the resulting cost exceeded the amount of \$90 million.

In order to increase corporate synergy, the strategic alliance between Provincia Seguros and Provincia Leasing was strengthened through the development of a combined product for individuals and SMEs offered all over the country. Moreover, an agreement was entered into among Provincia Seguros, Banco de la Provincia de Buenos Aires and Adaiopro to channel the sales made at the Bank’s branches by expert sales agents. Provincia Seguros S.A. accompanied the Government of the Province of Buenos Aires in the implementation of the public policies focused on social issues, and will continue with this kind of actions over the next fiscal year.

It kept reinforcing its brand and corporate image, linking them to the Government of the Province of Buenos Aires, and developing institutional actions in favor of the community through local campaigns for social commitment and environmental protection

The goals for the next year include sales growth and technical results improvement, seeking for optimizing costs through the reallocation of existing resources.

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

The Company participates in the market of workers' compensation insurance according to Law No. 24557/95.

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

As a consequence of the new LRL and in order to cover the changes introduced by this Law regarding compensation amounts, the Company calculated a necessary increase in rates of 29.23%, but the Workers’ Compensation Insurance Superintendency (*SRT - Superintendencia de Riesgos del Trabajo*) only authorized increases up to 19.7%. ProvART decided to make selective increases so as to cover the compensation amounts specified in the new regulation.

While increases were expected to impact on the non-remunerative items contemplated by the Law, the SRT issued communication 928/13, dated January 28, 2013, banning the inclusion of such items.



The new LRL unsuccessfully tried to minimize the institution of legal proceedings. Legal actions brought against the Market and ProvART increased 23% and 48%, respectively in the year.

In 2013, the Company achieved the positioning and business goals required by GP, surpassing the number of insured and premiums. Within the workers' compensation insurance market, it ranked 3<sup>rd</sup> at the national level and 1<sup>st</sup> in the Province of Buenos Aires.

During 2013, the Company issued premiums and surcharges for \$2,971.8 million, an 83.5% increase with respect to the previous year. At December 31, 2013, it had 1.3 million policyholders, 38% over 2012. Both increases were the highest recorded in the market.

On December 4, 2013, the SSN, in virtue of the assessment of the Company's technical ratios, required such Company to submit a regularization and reorganization plan related to coverage and minimum capital requirements. The plan had to include, without limitation, administrative, economic, financial, and commercial and any kind of measures for the regularization of deficits, a capitalization program stating dates and amounts of the contributions to be made, and future actions aimed at securing surplus in both technical ratios. Likewise, the Company was required to comply with the prevailing regulations on coverage and minimum capital requirements, disregarding the alternative criteria adopted by the Company until September 30, 2013. The Company submitted the required information to the pertinent control authority but at the date of issuance of the Financial Statements of Provincia ART S.A., the SSN has rendered no opinion regarding the regularization plan.

- **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 2013, its production amounted to \$93.4 million, 37% over 2012. Policyholders totaled 305,000, a 20% rise as against the previous year and it remained positioned as the leading insurance company in terms of insured.

At December 2013 and in terms of life insurance policies, the Company ranked 7<sup>th</sup>, 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 5<sup>th</sup> in the ranking.

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

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

Consequently, the Company adjusted its management structure for the best combination of expenses and income. In 2013, it recorded profits for \$37 million, supported by a diversified investment policy and optimization of the risk/return ratio. The Company paid GP a dividend of \$10.4 million, charged against the income/(loss) of the 2012 and 2013 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, acquired or owned by the Company for leasing purposes.

In 2013, the Company exceeded its business target implementing different marketing actions, and carrying out transactions that overfulfilled the goals (135%) set for a year characterized by a highly competitive market. Once again, the actions 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 “Personnel” and “Grupo-BPBA’s Employees” financing facilities 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 active participation in several fairs and events, interacting with potential customers and suppliers.

These actions were adjusted to the prevailing financial and economic context accompanying and fostering the development and expansion of different markets during the year, for example through the implementation of the Credit Facility for Productive Investment (Communication “A” 5449 of the BCRA).

Training 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 33% of the Company’s portfolio

The average financial leasing transaction amounted to \$507,000 with a significant participation of SMEs, with the following breakdown by segment: SMEs: \$210 million, Individuals: \$48 million and Grupo-BPBA’s Employees: \$ 9.8 million.

- **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.

According to the guidelines set forth by the Board of Directors, in 2013 the Company reoriented its business towards provincial and municipal public sectors, for which trusts mean a significant management tool. For example, trusts related to road works in the province of Buenos Aires or entered into by electricity power distributors to maintain or improve the service.

Ten new transactions were recorded, so the number of agreements significantly increased with respect to 2012.

The Company did not resort to external financing and carried on activities with its own funds as in previous years. The investment of financial excesses became an additional funding source that in 2013 accounted for 9.7% of its total income.

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

Towards the end of 2012 and in 2013, Bapro Medios de Pagos S.A. was restructured, establishing a new business unit and extending and improving the services offered by traditional non-banking collection units and call centers. This was accompanied by technological upgrading and higher management efficiency.

As a consequence of the inclusion of the new business unit, the Company changed its trade name to Provincia NET.

At the end of the fiscal year, Provincia NET recorded a net income/(loss) (before taxes) of \$35,066,768 and a total billing of \$714,672,870, accounting for a 230% increase over the previous year.

### **I. *Traditional Units: Collection Services and Call Center***

Provincia NET participates in the collection services market and its purpose is to provide management services associated with systems, means of payment and/or credit, including cards, and other related activities, and also acts as supplier of call center services.

#### Non-banking Collection System Business Unit

Through out 2013, the Company consolidated its position in the non-banking collection market, with an almost 5% increase in transactions in line with the market growth, and an overall 30% rise during the last three years.

By updating rates, the average billing per transaction and business segment grew by 25% and 31%, respectively.

More than one hundred collection agreements were subscribed, totaling 972 operative units at the end of the fiscal year.

In order to transform the Company into a service-integrating and intelligent Network, certain differential products got consolidation in the market:

- Payment gateway: This service for the collection of duties and levies for the Municipality of La Plata was implemented in 2013.

#### ***i. Call Center Business Unit***

Call Center's billing totaled \$30,563,128, a 48% increase over the previous year.

This segment was favored by an updating and upgrading technological process; a new telephone exchange was implemented enabling an integral customer management which offers services through different channels (SMS, e-mail, chatting and social networking) and the use of IP communications.

#### Technological Projects

Bapro Medios de Pago S.A. entered into an agreement with Instituto Provincial de Lotería y Casinos (Provincial Institute of Lotteries and Casinos) which provides for the rendering of integration management, administration and operational services in support of a transactional system for online data capture. Within this framework, bet capture amounted to \$8,342,944,762 in 2013.

In October 2013, the new facility and the Data Processing Center of PROVINCIA NET were inaugurated. Daniel Scioli, Governor of the Province of Buenos Aires, Santiago Montoya, President of Bapro Medios de Pago S.A., and Gustavo Marangoni, President of Banco de la Provincia de Buenos Aires were present at the event. The new facility has a physical space of 1,749 square meters designed according to international security and quality standards, providing an environment conducive to offering high-performance solutions and services with outstanding features of confidentiality, integrity and availability. The new Data Processing Center covering 246 square meters is located in the new premises with controlled and restricted access.

Fiscal 2013 was not only a year of projects and investment, but also a year of close cooperation with health, educational and management public entities as well as with companies owned by the provincial State. This collaborative work included technological upgrading, IT development services, and strategic projects and application designs support. Dozens of routers and wireless connection antennas (WiFi) were installed for social purposes and connectivity was provided to health, cultural and educational institutions. The first mobile solutions, such as maturity agenda, georeference to sites of social interest and vaccination schedules, were created and launched. Likewise, an electronic business tool for SMEs was developed and different tools for both internal and external customers were implemented, such as the new telephone exchange, a business intelligence tool and the Customer Relationship Management program (CMR). Actions



have been taken to obtain the international certification of the new data processing center (TIER) and data security rules (PCI).

- **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 of production plants, moving and relocation of companies 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 2013, Invierta Buenos Aires intensified its various lines of work.

The Agency assumed the role as trader of products and services for Grupo Banco Provincia's Companies in the interior of the country, except for the province of Buenos Aires. The companies involved in the first stage were Provincia Seguros, Provincia ART, Provincia Leasing, Provincia NET and Provincia Vida. The Execution of the Plan implied a survey in the cities of Neuquén, Córdoba, Corrientes, Mendoza and Tucumán in a first stage, and the cities of Santa Fe, Rosario, Paraná and Trelew in the second.

To promote synergy within Grupo Banco Provincia, the Risk Administration Management performed the risk analysis of individuals and enterprises seeking lease financing through Provincia Leasing S.A.

Likewise, during 2013, the Agency worked with the International Economic Relations Undersecretariat under the control of the Provincial Ministry of Production, Science and Technology with the financing of the Federal Investment Board (*Consejo Federal de Inversiones* – CFI). The work was completed with a series of talks and the publication of the Food and Beverage Manufacturer and Exports Directory.

Monthly macroeconomic reports have been drafted including analysis by sectors, emphasizing the economic and financing situation of the world, mainly of the leading countries of Latin America.

The Agency organized the IncentiBA 2013 program, specially addressed to entrepreneurs located in the province of Buenos Aires.

In 2014 surveys will be performed in the interior of the country, coordinating commercial policies tending to attract new customers, generate greater fidelity from current customers, strengthen brand presence and introduce products and services of Grupo Banco Provincia's Companies into new markets throughout the country. Similarly, the IncentiBA 2014 program will be implemented and two new research projects developed together with the International Economic Relations Undersecretariat of the Provincial Ministry of Production, Science and Technology will be submitted to the Federal Investment Board.

After the amendment to its by-laws, Invierta Buenos Aires changed its name to BA Desarrollo and broadened its corporate purpose.

- **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 current laws, the consolidated text of General Resolutions and rules issued by the National Securities Commission (*CNV – Comisión Nacional de Valores*), the By-laws, Internal and Operative Regulations and other communications issued by the Mercado de Valores 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. In 2013, the CNV regulated the new law through General Resolution No. 622/13, the principles and purposes of which are: a) adoption of regulatory global standards according to domestic scenario, b) additional protection for retail investors, c) promotion of new investors' participation, d) SMEs' access to new capital markets, e) streamlining of trade procedures, f) federally integrated capital markets. These purposes will be accomplished through the interconnection of a federal market so as to achieve a fluid information exchange, greater openness, participation and inclusion, higher transparency under the control, regulation and supervision of the CNV. This encourages the adoption of corporate government guidelines for market intermediaries, eliminating self-regulation procedures and implementing the demutualization process and a new registry of companies with new categories of agents.

The Company acts on behalf of principals (natural or artificial persons, whether 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. Due to the new law, the Company had to register itself with the CNV as Comprehensive Settlement and Compensation Agent and participates in the liquidation and settlement of its own and third trading agents' transactions. In order to perform this new role, the Company has been complying with all the new legal requirements and adapting its structure to the new business model, and this process will continue during 2014.

From a business point of view, 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 2013, the Company continued the development of 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.

The relationship with institutional customers intensified, particularly with social security funds for professionals of Buenos Aires and other provinces. This situation resulted in the diversification and increase of the transactions entrusted to the Company.

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

Provinfondos S.A. is a 19-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, 2013, total equity managed by Provinfondos S.A. amounted to \$855.8 million, 58.77% over the level attained at the end of 2012.

In September 2013, the Company changed its commercial strategy coordinating the financial policy with the Bank's Investment Unit that translated into an increase in both (permanence) average balances and amount of new customers, especially corporate customers, with the consequent positive impact on income. This campaign to attract new customers, coordinated with the Investment Unit, showed an accelerated growth (124% since September 2013), higher than that of the rest of the system which only grew 15% in such period.

In 2013, the Bank's internet banking platform (BIP) was an alternative channel to attract new retail investors.

The Company supplemented its offering of products with a new fixed-income mutual fund (1822 – Raíces Inversión) in line with market requirements.

In terms of yield, the money mutual fund showed an upward trend, ranking among the top ten in its category in December 2013, while the fixed-income mutual fund was one of the leaders since its introduction in the market.

#### 2.1.11. Institutional Presence

The Bank's Corporate Communication Unit is committed to spread a unique advertising and institutional message aimed at enhancing its brand image and maintaining its long standing tradition. It is also responsible for organizing different events for the Bank's officers and employees, such as ceremonies where retired personnel received awards and other meetings.

Likewise, this Unit organizes and participates in events inherent to its mission, including "2013 – Banco Provincia Journalist Day Meeting", "2013 – Banco Provincia Advertising Meeting" and "Jerry Goldenberg Award".

In 2013, the Bank took an active participation in 14 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 2013 (AGRICULTURAL AND FARMING EXHIBITION)	BARADERO
FISA 2013 (MULTISECTORIAL EXHIBITION)	BAHIA BLANCA
39° FERIA INTERNACIONAL DEL LIBRO (INTERNATIONAL BOOK FAIR)	CITY OF BUENOS AIRES
23° FERIA DEL LIBRO INFANTIL Y JUVENIL (CHILDREN'S AND YOUNG PEOPLE'S BOOK FAIR)	CITY OF BUENOS AIRES
CAMINOS Y SABORES (SMALL PRODUCERS' FAIR)	CITY OF BUENOS AIRES
127° EXPOSICIÓN GANADERA EN LA RURAL DE PALERMO (LIVESTOCK EXHIBITION)	CITY OF BUENOS AIRES
4° EXPOINDUSTRIA (INDUSTRY EXHIBITION)	BERAZATEGUI
LA MATANZA EXPONE (PRODUCTS AND SERVICES EXHIBITION)	LA MATANZA
LA PLATA PRODUCE (TRADE, INDUSTRY AND SERVICES EXHIBITION)	LA PLATA
EXPO CAÑUELAS (TRADE AND INDUSTRY EXHIBITION)	CAÑUELAS
60° EXPOSICIÓN DE GANADERÍA, GRANJA, COMERCIO E INDUSTRIA (LIVESTOCK, FARMING, TRADE AND INDUSTRY EXHIBITION)	GENERAL MADARIAGA
27° EXPOSICIÓN GANADERA, COMERCIAL E INDUSTRIAL (LIVESTOCK, TRADE AND INDUSTRY EXHIBITION)	LAPRIDA
EXPOPARQUE 2013 (MULTISECTORIAL EXHIBITION)	ALMIRANTE BROWN
EXPOLOMAS 2013 (MULTISECTORIAL EXHIBITION)	LOMAS DE ZAMORA

In July 2013, the Corporate Communication Unit and the Economic Research Management organized the Second Banco Provincia Seminar on "Financing, competitiveness and productive development", which took place in Vicente Lopez district.

This Unit, together with lending sectors of the Bank, also conducted loyalty campaigns and launched new products in different business meetings with customers held in the cities of 9 de Julio, San Fernando, Pilar, San Martín, Ituzaingó, Adrogué, San Miguel, Banfield, etc.

The Bank also ratified its continued presence by participating in more than 200 institutional and advertising events, such as conferences, festivals, popular festivities, fairs, cultural and sports events and anniversary celebrations, donating flags to provincial schools and taking part in trade, industrial and cattle breeding exhibitions, and auctions within the provincial territory.

## **Advertising Presence**

The Bank's Corporate Communication Unit designs advertising campaigns for traditional and non-traditional media to promote its commercial products and institutional events.

This Unit also promotes the services especially designed by the Commercial Policy Area during summer and winter seasons with a strong institutional presence.

Campaigns for credit and debit cards promotions, BIP benefits, and consumer loans achieved the highest penetration in the market.

The Corporate Communication Unit coordinates and manages the two institutional Twitter accounts aimed at customer service and press information.

In 2013, the Bank had an active presence in the media through 19 significant advertising campaigns:

### **CAMPAIGNS FOR CREDIT AND DEBIT CARDS**

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The Magi  
Summer 2013  
Carnival  
Women's Day  
Book Fair  
Holy Week  
Father's Day  
Winter 2013  
Friend's Day  
Children's Day  
Mother's Day  
Anniversary Promotion  
Christmas  
Long Weekend

### **CAMPAIGNS FOR LOAN FACILITIES AND PRODUCTS DESTINED TO THE AGRICULTURAL SECTOR**

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Consumer Loans  
Productive Investment  
Procampo Card  
Working Capital  
Loans to Flood-Affected Individuals

### **CAMPAIGNS FOR SPECIAL PRODUCTS**

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Re-opening of Branches  
CEDIN (Certificate of Deposit for Investment)  
BIP

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

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

On August 27, 2013, the Institutional Governance, Ethics and Compliance Committee proposed to the Board of Directors some amendments to the Institutional Governance Code. The most significant amendments are related to the composition of certain Committees and the

Organization Chart, the setting up of the Business Unit Commission and the Sustainability and Quality Management Commission, the creation of the main guidelines regarding its Sustainability and Quality Policy and its own Procurement Regulations. Through Resolution No. 1382/13, dated September 5, 2013, the Board of Directors approved these amendments, asserting that the Institutional Governance Code formulated by the Bank is suitable for its profile, complexity and importance.

In light of the foregoing and according to the Bank's transparency policy, the Code is publicly available in the Bank's website: [www.bancoprovincia.com.ar/institucional](http://www.bancoprovincia.com.ar/institucional).

With respect to the anti-money laundering policy, the Bank goes on taking measures to keep all systems and circuits updated according to prevailing and regular standards, and to improve the control on potentially risky transactions.

## 2.2. Financial Statements

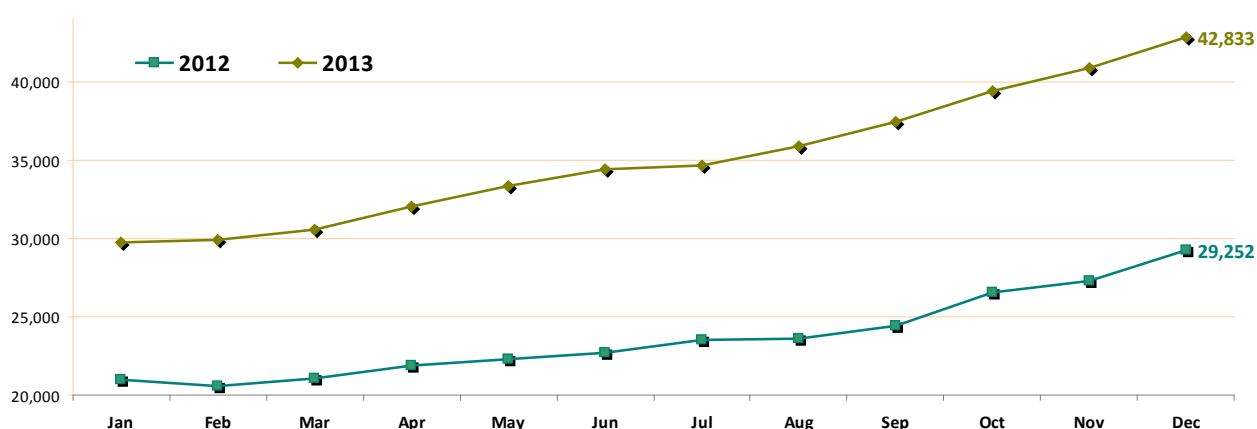
### 2.2.1. Balance Sheet

- **Assets**

In 2013, the consolidated figures with the Bank's foreign branches showed a 38.6% y/y growth in Assets equivalent to \$21,654 million mainly due to increases in:

- Cash and Due from Banks, which grew by 30.23%, equivalent to \$3,084 million.
- The Loans caption, net of the uncollectibility allowance, which improved by 46.43% (\$13,581million) mainly on account of loans to the private sector, particularly Consumer Loans, Notes and Credit Cards. On the other hand, loans to the public sector amounted to \$2,241 million (75.63%).
- Government and Corporate Securities, which grew by 5.6% (\$620 million) due to the increase of \$1,552 million in the market value of Boden 2015 that was partially neutralized by the decline of \$479 million in sales of BP28 and BPLD, and the reduction of guaranteed Bonds NF 18 for \$397 million.
- Other Assets showed a slight comparative change. The Miscellaneous Receivables caption recorded the highest variation increasing by \$486 million (31.16%).
- Other Receivables from Financial Brokerage rose by 184.3% y/y, equivalent to \$3,902 million, mainly due to the Bonds received from the Ministry of Economy (\$3,832 million).

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

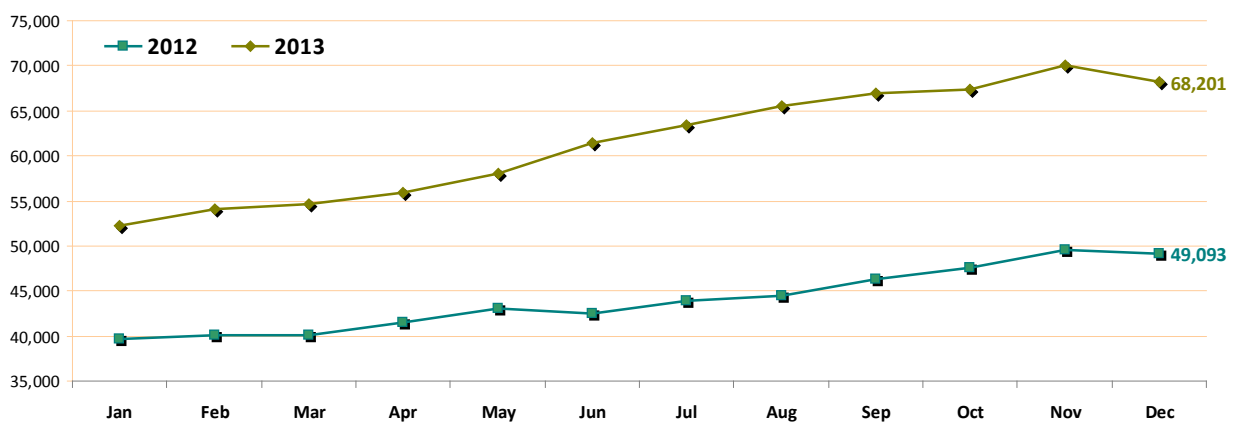


- **Liabilities**

Consolidated figures with the Bank’s foreign branches showed a 38.4% increase in Liabilities equivalent to \$20,204 million. Deposits, its main caption, rose by 39.0% (\$19.284 million) mainly due to the expansion of private sector placements for \$11,570 million (checking accounts, savings accounts and term deposits stood out) and the increase in public sector deposits by \$7,781 million.

Other Liabilities from Financial Brokerage fell by 0.62%, accounting for \$14 million.

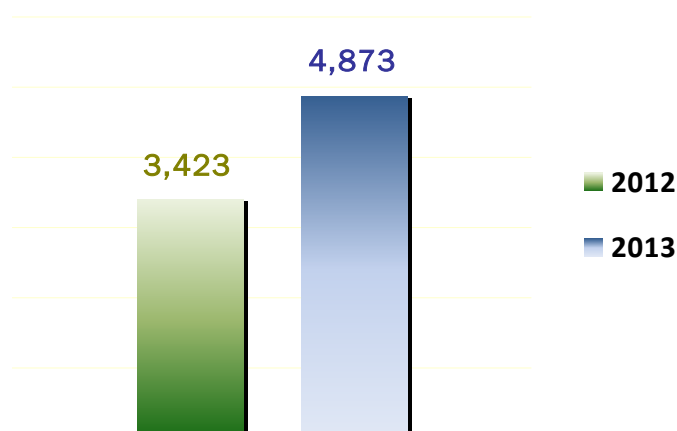
**Evolution of BPBA Deposits (total figures)**  
In millions of \$



- **Net Worth**

In 2013, Net Worth increased \$1,450 million as against the previous year, mainly as a consequence of a \$1,442 million positive result, net of an \$8 million charge for Prior Year Adjustments.

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



### 2.2.2. Statement of Income

Total income reached \$1,442 million, accounting for a 118.7% increase (\$782 million) over last year. This was due to the favorable performance showed by financial brokerage totaling \$2,149 million, equivalent to 190.7% y/y increase.

The gross financial brokerage margin totaled \$5,741 million, 59.6% higher than in 2012. This result was due to a greater contribution of interest collected (consumer loans, mortgage loans, notes and credit cards), partially neutralized by larger financial expenditure as a consequence of the growth in fixed-term deposits.

The net contribution of income from services grew by 31.4%, amounting to \$2,418 million. The most significant increases were observed in commissions for Visa credit cards transactions, loans and checking accounts.

Administrative Expenses totaled \$5,609 million, accounting for a 28.7% y/y increase.

The net income/(loss) on Miscellaneous Income and Losses was -\$707 million, mainly due to an increase in provisions for possible contingencies, and a reduction in income from long-term investments and provisions for adverse judgments.

**Statement of Income**  
In millions of \$



## 3. Prospects

### 3.1. Medium-term Scenario

In the medium term, the international economy would show a consolidation in the growth of developed economies. This situation would imply a slow return to normal conditions after many years of an expansive behavior derived from liquidity generation and a sustained demand via public spending. Thus, the performance of global monetary policy is expected to change, with consequent higher interest rates and reduced capital flows towards emerging countries. In this context, the soundest economies would continue to be on the rise while those with external and fiscal imbalances will have to make adjustments in order to keep in the growing path.

Among developed economies, the significant improvement in employment and growth dynamics observed in the U.S.A during the last quarters is expected to persist throughout 2014. Such situation eased the slow withdrawal of non-conventional monetary stimuli by the Federal Reserve Bank; a process that is expected to conclude by late 2014. The Euro-zone economy



would resume growth after two contractive years. According to IMF projections, Euro-zone GDP is expected to expand 1.2% in 2014.

With respect to the other largest trading partners of Argentina, China's growth projections for 2014 stand at an annual 7.5%, somewhat below the 7.7% recorded in the preceding year. Brazil, Argentina's major trading partner, still shows a weak growth due to the slight reaction of its internal supply of goods to the increased demand. In a context of fiscal stimulus withdrawal and increased domestic interest rates, economy is expected to grow by 1.8%; 0.5 p.p. below the 2013 expansionary level.

World trade turnover would expand from 3.0% in 2013 to 4.3% in 2014, with the ensuing direct effect on local economy.

With respect to the international prices of raw materials, the increase of interest rates accounts for the US dollar strengthening and the shift from risky asset (e.g. primary goods) to safer assets. On average, the price of raw materials is expected to decline; this situation will deepen in the case of agricultural products due to the normalization of the global supply of grains. However, prices will maintain their historically high levels as the result of the greater international demand.

In general, the world scenario will continue being favorable for Argentina, though less than in recent years. The international growth pace is expected to increase; interest rates will remain low despite the pertinent adjustments, and prices of raw materials will remain high; however, the weak Brazilian growth will have a negative impact.

After the exchange rate correction of early 2013, Argentina's growth is expected to slow down as against the previous year. Demand from abroad is likely to reduce, particularly for industrial products, mainly as the result of the shrinkage in the Brazilian market. At a local level, family consumption is expected to perform less dynamically in a context of lower purchasing power and high interest rates.

## **3.2. Actions for 2014**

- **Budgetary Goals**

The Bank's Expenditure and Revenue Budget for the 2014 fiscal year, included in Provincial General Budget Law No. 14552, was fixed at \$8,310.46 million and contemplates the amount of resources required to meet them.

Revenue estimates approved by Law No. 14552 were calculated on the (net) Income from Financial, Services and Foreign Branches Transactions and Miscellaneous, which amounted to \$8,310.46 million.

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

- **Actions**

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

### **3.2.1. Financing Activity**

During 2014 and in line with the financial strategy of the latest years, the Bank will continue raising funds to support its lending policy, optimizing funding costs and maintaining liquidity ratios within projected levels.

Private deposits in the Financial System are expected to increase about 28% while placements in the Bank are likely to surpass such level by one or two percentage points. Prospects anticipate a 9% market share in total deposits - slightly below the level attained in 2013- due to potential reductions in public sector placements which, after a year of strong increases, would evolve at a lower rate than the rest of the financial system.

The 2013 upward trend of borrowing interest rates is likely to persist. By mid-2014, interest rates offered by the Bank on retail and wholesale fixed-term deposits are expected to attain 19.31% and 23.11%, respectively.

### Capital Markets

One of the main goals for 2014 is to participate in the structuring, issuance and placement of Provincial debt securities in both national and international markets.

Steps will be taken to comply with all necessary formalities to include the Bank within the provisions of the Law on Capital Markets No. 26831, as regulated by the National Securities Commission (CNV), which provides for a comprehensive reform of capital markets' transactions.

### Financial Business

The main actions for 2014 are detailed below:

- Implement quality rules for the Bank's Investment Unit.
- Adjust the structure of Financial Transactions.
- Go on with the "Integral Financial Service" commercial strategy.
- Continue with the campaign to "Raise Funds for Fixed-Term Deposits" according to the Bank's liquidity needs.
- Maintain training courses for employees performing duties at branches.
- Proceed with the selection of financial officers to fill positions in the Regional Centers located at Avellaneda, City of Buenos Aires, La Plata, Bahía Blanca, Campana, Chivilcoy and Pehuajó.
- Provide remote branches with a teleconference system so as to facilitate training activities and customers' advice.
- Actively participate in events, meetings with clients, and fairs, through institutional exhibition stands.
- Implement an application (app) for mobile phone in the Investment Unit.
- Develop Customer Relationship Management (CRM) programs for the Bank's main investors.
- Optimize interaction among different commercial areas of the Bank and the Group, mainly focusing on "cross-selling".
- Build qualified investors' (individuals) loyalty by launching a mileage system for certain specific investments.
- Arrange the incorporation of software in the internal system of the trading room (SGM) as a platform for forward transactions to be carried out by customers dealing with foreign trade (Comex) transactions.

## **3.2.2. Commercial Activity**

### **3.2.2.1. Loan Activity**

*Throughout 2014, Banco Provincia will go on granting loans to both individuals and corporations in order to satisfy the financing needs of all productive and social sectors of the province and city of Buenos Aires.*



#### 3.2.1.1.1 Corporate Loans

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

The “Fondo de Garantías de Buenos Aires” (FOGABA) will keep on reducing credit risk by ensuring borrowers’ repayment capacity, specially as regards the financing of long-term investment projects, segment in which the Bank expects to consolidate in the years to come.

The offering of products, mainly Commercial Cards, will be intensified in the group of companies related to the Bank and will be extended to business chambers, educational institutions, trade unions, proprietors’ bureaus and other associations. At the same time, and with the support of the Business Units, marketing campaigns will be made to discover new key market niches.

#### Agricultural Sector

The Bank has planned to continue developing products and services with the purpose of granting loans for \$10,000 million.

To comply with the goal set by the Bank, the Productive Investment loan facility, characterized by a fixed interest rate during the first three-year period (17.50%), will be maintained. The Bank will go on promoting and offering loans at subsidized interest rates. Negotiations with the Province and the National Ministry of Agriculture, Livestock and Fisheries are in progress so as to increase the amounts of specific agreements already in force and to launch a new program for financing value added at origin.

With regard to the Procampo card, the Bank will continue encouraging strategic alliances with leading input suppliers; special agreements will be offered allowing producers to get financing at low-cost. Activation campaigns will be launched to re-engage latent customers and margins will be updated taking into account each cardholder’s real capacity.

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

#### Industrial, Commercial and Services SMEs and MiSMEs

Actions for 2014 forecast a 50% rise in the overall credit volume; corporate loans to be granted through the SME Banking channel would amount to \$7,500 million.

Commercial actions projected for the year include contacting 2,000 companies, visiting 1,000 and assigning credit ratings to 500 new firms.

#### Corporate Banking

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

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

and corporate banking and optimizing in-house processes which will allow setting the difference with competitors.

#### Micro-enterprises

Prospects for 2014 include the consolidation of the microfinance program (PROME S.A.) under which almost 30,652 loans are expected to be granted throughout the year for a total amount of \$503 million. This figure accounts for a 24.5% increase in lending volume and a 15% rise in the number of loans granted.

##### 3.2.2.1.2. Loans to Individuals

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

##### 3.2.2.2. Service Management

#### Credit and Debit Cards

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

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

#### Electronic means of payment

Banca Internet Provincia (BIP) platform will continue expanding so as to maximize the penetration of the Bank's business into the market. This will result in profits both in terms of productivity and competitiveness as long as costs are reduced and turnover rises.

As a consequence of the expected natural increase in the amount of users of electronic means of payment, the applications for debit cards and the normal dynamics in the activation of cards, almost 520,000 users are expected to join the BIP Individuos platform by late 2014, as against the 470,000 recorded a year earlier. The goal to shift transactions from physical to electronic channels and the operations derived from self-managed transactions (application for products/services and their acquisition via Internet) will benefit from such increased amount of users. The above will cause a "spillover effect" that will help expand business and modernize everyday transactions.

In 2014, in addition to the increased number of users, the migration process towards electronic channels (Internet and Mobile Banking) will go on. The main transactions (tax payments, inquiries, transfers, etc.) are expected to expand almost 30% as against 2013, year in which tax payment transactions amounted to 5,500,000, transfers to 1,500,000 and payments to the Internal Revenue Service (*Administración Federal de Ingresos Públicos – AFIP*) to 250,000. The BIP platform will continue developing and new functionalities will be incorporated in addition to the ones already existing: Opening of "Funds" accounts, taking out of ATM robbery insurance policies, payment button, reloading of "Visa reloadable" cards, instant judicial transfers, SMS



warnings and notices, exchanging of accrued points for rewards, and consolidated position data at December 31 of each year.

The portfolio migration process from BaproEmpres@ (managed by Red Link) to BIP Empresas will be concluded in 2014 and a marketing campaign will be launched aimed at maximizing adherence to this channel. In 2013, 27,000 companies, 18,000 legal persons and 9,000 sole proprietorships migrated to this platform. This process demands an active participation of branches and a fluid coordination among several Head Office areas since, among other tasks, it is necessary to contact entities and companies to drive them to try this new platform.

In the third quarter, the Bank will have its own Mobile Banking platform; therefore it will stop using the “Link Celular” service provided by Red Link. This will allow the Bank to operate independently, without intermediaries, and to incorporate to this channel its own functionalities. By year end, about 50,000 users are expected to join this platform, which would account for almost 10% of the Internet Banking users projected for such period.

#### Foreign Trade

The following goals have been set:

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

Focus will be given to both internal and external customers. To that end:

- The restructuring of operative processes will continue as regards imports, exports and international services.
- The operating system will be revised to tailor it to the requirements of the Bank and the market.
- Both transaction and lending volumes will be increased, specially focusing on provincial SMEs.
- The participation of Sao Paulo and Montevideo branches will be strengthened, in an attempt to increase the balance of the loan portfolio.
- The traditional presence in fairs, business meetings and exhibitions will be maintained.

#### **3.2.3. Credit Rating**

During 2014, the Bank will continue developing a web-based credit-score tool and related rating models. This tool will turn existing activities into a dynamic and integrated system, accessible by all members of the Credit Assessment Management in real time. It will help improve process efficiency, ensure database consistency and greater security, provide more objectivity to the credit assessment task and comply with the BCRA rules which provide for the adjustment of internal rating systems. The Balance Sheet and related Reports Database has already been developed and is in its test phase. The associated rating models and the complete administrative process will be incorporated, thus allowing the electronic development of the entire process.

The recent implementation of the Scoring system, after being reengineered, will enhance product offering and enable the administration of standards for proper adjustment to commercial, credit and regulatory reforms which, in turn, will result in greater dynamism.

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

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

An update will be performed on the general guidelines for the follow-up of debtors who are unable to regularize their situation by application of early-delinquency policies (new cases) or special recovery programs (cases already included in the management portfolio). The purpose is to find a proper tool that may take into consideration not only common patterns and features but also particular situations and the repayment capacity of debtors on a case by case basis.

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

Visits to different provincial districts will be intensified in 2014 to improve existing commercial relations and offer the wide range of banking products and services, particularly Petty Cash and Management of Electronic Documents, which have been recently launched.

Joint tasks with provincial agencies will continue in order to find solutions and optimize efficiency levels. Among others, the implementation of the Treasury Single Account (TSA) to improve financial management, the migration of the payment system to Electronic Banking, and the launching of Petty Cash as a tool for streamlining expenditure controls, are the most outstanding projects developed under joint coordination.

With respect to the public and private sectors, another goal for 2014 is to conclude the migration of payment and collection services currently available at cash desks to alternative electronic channels.

Jointly with the Information Systems Management, a new Payment System will be developed to include payment of wages/salaries, benefits, fees and payments to suppliers. This system will speed up implementation and commercialization times while favoring the provision of services according to the market requirements and the Bank's needs.

### **3.2.6. Human Resources**

The following goals have been set:

- Intensify managers' training policies as well as the development of higher job positions by providing tools concerning leadership, communication, responsible delegation of duties, innovation, business strategies, change management, market evolution analysis, etc.
- Enlarge the scope of the remote training experience, supporting the operation of the virtual platform and introducing new contents.
- In the Campus Provincia portal, enhance the Information to Staff and Provincia TV sections further, including recent news, videos, reports, pictures and digital surveys.
- Advocate for the integration, exchange and spreading of group values through web-based expositions in the Después de Hora program.
- Review the functioning of the different communication channels, analyzing their efficiency in message transmission and the valuation of contents through them.

### **3.2.7. IT Policy**

According to the 2014 IT Operative Plan, the Bank will continue consolidating its IT systems and updating technology. Mention should be made of the following projects:

- Business Data Base
- Proprietary Mobile Banking platform
- BIP Loans
- BIP - Corporate
- Customer Relationship Management (CRM) - Claims
- Multichannel strategy
- Printing of Debit Cards in Branches



- Corporate scoring
- New Foreign Trade System
- Reengineering of Individual and Corporate Credit Cards
- Payment to Suppliers and Wage/Salary Payment System
- Advances on wage/salary payments
- New JUREX System
- Introduction of improvements in CADAC Transactions
- Reduction of manual entries – TRX 9000
- Intranet Reengineering
- Accounting General Menu
- Accessibility for visually-impaired Users
- Means of Payment Accounting Reconciliation – MASTER Portfolio
- Reengineering of the Operational Risk Management System
- Integral Monitoring Solution – ATM and TAS
- Acquisition of a new Risk Integral System

### **3.2.8. Risk Management**

Among the different lines of action to be executed in 2014, the following are worth mentioning:

- Implement the economic capital calculation at both individual and consolidated levels and its calibration according to different methodologies.
- Move towards the integration of Grupo Provincia and the Bank, defining tools to be used in the medium and long terms through the development of key risk indicators, revision of policies and strategies, setting of limits, etc.
- Go on with the integration of Operational and Technical Risks.
- Create and develop an in-house, integrated and global process to assess economic capital adequacy in terms of the Bank's risk profile (ICAAP), with the consequent analysis in stress situations.
- Implement the Operational Risk tool with the corresponding training course for Bank's users.
- Invite tenders for the acquisition of an integral risk tool.
- Implement and undertake a periodic revision of the Market Discipline guidelines; the first maturity will take place in February 2014.
- Develop new Models (interest rate projection, impact of increased interest rates, yield curve to stress test the government securities' portfolio exposed to market risk, risk-adjusted yield, etc.) and enhance the methodologies applicable to different risks.

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

During 2014, the Holding will continue to favor the generation of income from GBP and its companies to the Bank, through defined business goals aimed at attaining consolidated income from services over \$9,000 million.

The strategic goals of the Group aim at the rendering of non-banking services, supplementary to the financial activity, based on technological innovation. Such services will be intended to:

- Stand out for their high quality and accessibility
- Facilitate the progress of families, entrepreneurs, companies and local governments
- Maintain adequate management efficiency levels
- Strengthen the presence of the Group, Banco Provincia and the Province within the territory, through the generation and design of special transformation and innovation projects aimed at promoting social inclusion.

In accordance with the provisions of Resolution No. 37163 of the SSN, policy guidelines and adequacy plans will be established as from January 2, 2013 requiring the three controlled insurance companies to invest certain minimum and maximum percentages of their total investments, included in their Coverage Statements, in instruments for the financing of



productive or infrastructure projects. Accordingly, Provincia Seguros S.A.'s percentage shall range 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 pertinent total investments, excluding real property.

Agencia Invierta Buenos Aires will now be known as BA Desarrollo due to a change in its by-laws that will allow enlarging its current corporate purposes.

### **3.2.10. Institutional Presence**

During 2014, the Corporate Communication Unit expects to develop a communicational plan oriented to social networks. It will also intensify the actions already implemented.