

## **INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS**

To the President and Board of Directors of  
Banco de la Provincia de Buenos Aires  
Legal Domicile: Av. 7 (Ingeniero Luis Monteverde) N° 726 La  
Plata – Provincia de Buenos Aires  
Taxpayer Registration Code No. 33-99924210-9

### ***Report on financial statements***

We have audited the accompanying financial statements of Banco de la Provincia de Buenos Aires (the "Bank"), which comprise the balance sheet as of December 31, 2017, and the related statement of income, statements of changes in net worth and cash flows and equivalents for the fiscal year then ended, and Notes 1 to 21 and supplemental exhibits A, B, C, D, E, F, G, H, I, J, K, L, M, N and O. Furthermore, we have audited the accompanying consolidated financial statements of Banco de la Provincia de Buenos Aires with those of its controlled companies, which comprise the consolidated balance sheet as of December 31, 2017, the related consolidated statements of income and cash flows and equivalents for the fiscal year then ended, and Notes 1 to 22, as well as the consolidated statement of debtor's status report, which are presented as supplementary information.

### ***Board of Directors' and General Management's responsibility for the financial statements***

The Board of Directors and the General Management are responsible for the preparation and presentation of the accompanying financial statements in conformity with the accounting standards established by the Argentine Central Bank (BCRA). The Board of Directors and the General Management are also responsible for the design, implementation and follow-up of the internal controls considered necessary to enable the preparation of financial statements free from material misstatements.

### ***Auditors' responsibility***

Our responsibility is to express an opinion on the accompanying financial statements based on our audit. We have conducted our audit in accordance with the auditing standards established in the Technical Resolution No. 37 of the Argentine Federation of Professional Councils in Economic Sciences (*Federación Argentina de Consejos Profesionales de Ciencias Económicas – FACPCE*) as approved by the Board of Directors Resolution No. 3518 of the Professional Council of Economic Sciences of the Province of Buenos Aires (*Consejo Profesional de Ciencias Económicas de la Provincia de Buenos Aires – CPCEBA*) and the "Minimum Standards for External Audits" issued by the BCRA. Those standards require us to comply with ethical requirements and to plan and perform the audit so as to obtain reasonable assurance that the financial statements are free from material errors. An audit involves performing procedures based on selected data to obtain audit evidence about the figures and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the financial statements. In making this risk assessment, we consider the existing internal control relevant to the Bank's preparation and presentation of the financial statements in order to select audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the accounting policies used, the significant estimates made by the Bank's Board of Directors and the General Management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### ***Basis for our qualified opinion***

As described in Note 16 to the stand-alone financial statements, the Bank has adopted, as valuation criteria for the Guaranteed Bonds issued by the Trust Fund for Provincial Development (*Fondo Fiduciario para el Desarrollo Provincial*) (Bogar 2018), the accounting criteria authorized by the BCRA according to the exemptions granted through Resolution No. 92/11, as considered in force. As indicated in Note 2.18 to the stand-alone financial statements, this accounting policy departs from the BCRA's accounting standards.

### ***Qualified opinion***

In our opinion, except for the effects of the matter described in "Basis for our qualified opinion", the accompanying financial statements of Banco de la Provincia de Buenos Aires present fairly, in all material aspects, its financial position at December 31, 2017, the results of its operations, cash flows and equivalents and changes in its net worth for the fiscal year then ended, as well as the consolidated financial position of Banco de

la Provincia de Buenos Aires and its controlled companies at December 31, 2017, the consolidated results of their operations, consolidated cash flows and equivalents for the fiscal year then ended, in accordance with the accounting standards established by the BCRA.

### ***Emphasis of Matters***

Without modifying our opinion, we draw attention to the information included in Notes to the accompanying financial statements:

- a. As stated in Note 3 to the stand-alone financial statements and Note 3 to the consolidated financial statements, the financial statements have been prepared by the Bank's Board of Directors and General Management in conformity with the applicable accounting standards established by the BCRA. Those standards differ, in certain valuation and disclosure aspects, from the current professional accounting standards of the Province of Buenos Aires, which are identified and partially quantified in such notes.
- b. As indicated in Note 19 to the accompanying stand-alone financial statements, the items and figures contained in the reconciliation included in this Note may change and may only be deemed final when annual financial statements for the fiscal year are prepared in which the International Financial Reporting Standards (IFRS) are applied for the first time, with the scope defined by the BCRA in its Communication "A" 5541, as supplemented. They constitute, in whole, the IFRS standards adopted by the BCRA, which differ from the IFRS in that they include the provisional exemption from the application of section 5.5 "Impairment" under IFRS 9.
- c. 1) Note 16, which describes that, through Resolution No. 92/11, the BCRA granted to the Bank certain facilities and exemptions mainly linked to the valuation of public sector assets and other prudential and solvency aspects, the validity of which was subject to the Bank's compliance therewith.

The Bank has not complied with the provisions of Resolution No. 92/11 related to capital requirements and frozen assets regulations, exposure to the public sector, credit risk diversification in public sector financing, adjustment of related companies to BCRA's regulations, among others.

As stated in Note 16 to the stand-alone financial statements, the Bank has submitted several documents to the BCRA including its 2015-2018 Compliance Schedule. Its main purpose is to achieve self-capitalization through the generation of earnings, its inclusion in the prudential solvency rules and the maintenance of certain exemptions granted by Resolution No. 92/11 as well as other additional exemptions requested by the Bank related to exposure to the public sector, credit risk diversification in public sector financing, compliance with minimum capital requirements, calculation of loans for productive investment and licensing of service units.

As described in Note 16 to the stand-alone financial statements, on March 10, 2017, the Bank requested an additional period to submit a new schedule and the maintenance of the exemptions granted under Resolution No. 92/11 until being certain of the scope and financial terms and conditions of the debt structuring process with the Province of Buenos Aires.

At the date of the financial statements, no reply has been received from the BCRA regarding the above requests.

The accompanying financial statements have been prepared taking into account the facilities and exemptions granted by the BCRA pursuant to Resolution No. 92/11 and other requests described in Note 16. Therefore, they must be read in the light of these circumstances.

On September 7, 2017, the BCRA sent to the Bank the final verification memorandum containing the findings of the examination made at December 31, 2016. As stated in Note 16 to the stand-alone financial statements, on November 8, 2017, the Bank filed a detailed answer informing the remarks that had been remedied as well as those for which a specific remediation plan had been implemented thus far. At the date of issuance of the accompanying financial statements, the Bank is drafting the reply to the remaining remarks.

- c. 2) As stated in Note 8 to the accompanying stand-alone financial statements, on January 16, 2018, Law No. 15008 was published in the Official Gazette of the Province of Buenos Aires. Such law, approved by the Provincial Legislature, modifies the retirement and pension regime applicable to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel. At the date of issuance of the financial statements, the pertinent regulation is still pending. Therefore, the Bank is unable to estimate the impact of this change on its financial condition and is analyzing the possible accounting effects of the new law. The Bank's Board

of Directors understands that, if necessary, the BCRA will grant the facilities necessary to address the potential impact that such change would cause on the Bank's financial condition.

The accompanying financial statements must be read in the light of the circumstances detailed in c.1) and c.2).

- c. 3) As described in Notes 1.a and 1.h to the accompanying stand-alone and consolidated financial statements, respectively, at December 31, 2017 the Bank has a considerable exposure to the Argentine public sector through government securities, loans and other financial assistance. Accordingly, the future evolution of the provincial and national economies and the honoring of obligations are of significant importance to the financial condition of the Bank.
- d. Banco de la Provincia de Buenos Aires holds a 99.97% interest in Grupo Banco Provincia S.A., which has been valued according to the equity method of accounting and included in the consolidated financial statements. Without modifying our opinion, we draw attention to the information included in:
  - d.1) Note 18.a.1 to the accompanying consolidated financial statements, which describes that Provincia ART S.A. manages the self-insurance contract of the Government of the Province of Buenos Aires and therefore, significant receivable amounts have been accrued, the payment method and term of which are explained in such note. At December 31, 2017, the pertinent balance in favor of Provincia ART S.A. amounted to \$224,830 thousand.
  - d.2) Note 18.a.3 to the accompanying consolidated financial statements, which describes that the final effect on Provincia ART S.A.'s transactions of the regulatory changes and their different application methods in each jurisdiction, and the impact on balances of its provision for insurance claims at December 31, 2017, could not be determined.
  - d.3) Note 18.a.5 to the accompanying consolidated financial statements, which describes that at December 31, 2017, Provincia ART S.A. shows deficits in its minimum capital technical ratios for \$1,565,686 thousand. As mentioned in such note, on January 16, 2017, the National Insurance Superintendency (*Superintendencia de Seguros de la Nación - SSN*) approved the regularization plan submitted by the company on November 10, 2016, requiring to semiannually submit an independent auditor's report with an opinion on its premiums adequacy as well as the corrective measures to be implemented in case of deviations from the approved plan.

### ***Other matters***

With relation to the stand-alone and consolidated financial statements at December 31, 2016 and for the fiscal year then ended, which are presented for comparative purposes, we inform that the figures and other information related to the year ended December 31, 2016 arise from the relevant financial statements, which were audited by other professionals who issued their auditor's report on February 16, 2017. A qualified opinion on such financial statements was issued considering a) the situation described in "Basis for our qualified opinion" of the report, and b) that the account balances corresponding to the assets held in trust were not fully updated in the Bank's records at December 31, 2016, as required by the BCRA. Should such accounting rules have been applied, the "Memorandum Debit Accounts - Trust Accounts - Trust Funds" caption would have amounted to \$747,860 thousand. Mention should be made that item b) above is regularized at December 31, 2017. Moreover, it included emphasis of matters related to the situations detailed in items a, c.1), c.3) and d of this report.

### ***Report on other legal and regulatory requirements***

In compliance with prevailing regulations, we report that:

- 1. the accompanying stand-alone financial statements have been recorded in the "Balance Sheet" book, and arise from the Bank's accounting records kept in all formal respects in conformity with legal regulations;
- 2. at December 31, 2017, the Bank maintains the Minimum Net Worth and Counterpart Contribution required by the National Securities Commission (*Comisión Nacional de Valores*) as mentioned in Note 15 to the accompanying stand-alone financial statements;

3. we have implemented procedures related to anti-money laundering and anti-terrorist financing in accordance with the professional standards issued by the Argentine Federation of Professional Councils in Economic Sciences;
4. the accompanying consolidated financial statements have been recorded in the “Balance Sheet” book and have been prepared by the Bank’s Board of Directors and General Management, in all material respects, in compliance with the consolidation guidelines set forth by Communications “A” 2227 and 2349 of the BCRA included in Notes 1-22 to the consolidated information;
5. taking into account item c.1 of “Emphasis of Matters” above, at December 31, 2017, no further evidences of material lack of compliance with the monetary and technical regulations set forth by the BCRA are observed on the consolidated information reported to such control authority; and
6. as mentioned in Note 20.2 to the stand-alone financial statements, at December 31, 2017, the accounting records of the Bank show no accrued debts for employee withholdings and employer contributions towards the Argentine Integrated Pension System.

La Plata, Buenos Aires, March 1, 2018.