Banco Provincia

NOTES TO THE FINANCIAL STATEMENTS

AT DECEMBER 31, 2017 AND COMPARATIVE PERIODS

(In thousands of pesos)

1 – Institutional Nature of the Bank – The Argentine Economic Context and its Impact on the Bank's Economic and Financial Position – Basis for Presentation of the Financial Statements

Institutional Nature of the Bank

Banco de la Provincia de Buenos Aires (BPBA or the Bank) is a self-administered public institution, the origin, guaranties and privileges of which are set forth in the Preamble and Sections 31 and 104 of the National Constitution, presently ratified by Sections 31 and 121 of the National Constitution as amended in 1994.

Section 7 of the national union pact dated November 11, 1859 (San José de Flores Treaty) established that the Province of Buenos Aires reserved for itself the exclusive rights, among others, to govern its Provincial State Bank and to pass the necessary laws to that effect.

For that reason, article 4 of the Bank's Charter – Decree Law No. 9437/79, as amended, provides that the Bank, its assets, acts and doings, contracts and transactions, as well as the rights arising therefrom in its favor, shall be exempted from any liens, taxes, charges or contributions of any nature whatsoever.

The Argentine Economic Context and its Impact on the Bank's Economic and Financial Position

In 2017, the global economic activity showed more dynamism, gradually overcoming the turbulences faced by the financial markets that affected the evolution of the economic activity. Thus, global economy grew 3.6%; this figure stands above that of 2016 (3.2%). According to the estimates from the International Monetary Fund (IMF), this rebound was due to the reactivation of investments, foreign trade and industrial production in a context of recovery in the economic agents' confidence. The IMF emphasized that the acceleration of the growth pace was boosted by Europe, Japan, China and the United States and that the large emerging markets economies, mainly raw materials manufacturers, were showing recovery signs.

Even though global expansion has accelerated its pace, growth remains weak in many countries and inflation stands below target in most advanced economies. Thus, in developed economies, both GDP and domestic demand expanded at a higher pace. In fact, investment continued to strengthen in the United States; private consumption, investment and external demand became stronger in the Eurozone and Japan. Likewise, the domestic and external demand contributed to the recovery of other advanced economies, with the exception of the United Kingdom.

A continued economic recovery was observed in some emerging and developing countries. Thus, the higher domestic demand in China and the stronger external demand experienced by other East Asian economies stood out. The strong export performance and the decelerated contraction in domestic demand enabled Brazil to come out of eight quarters of recession. Likewise, the growth pace in India slowed mainly due to the monetary and fiscal policies adopted by the Government.

The prices of raw materials showed different performances .The rise in oil prices led the gains in the energy segment, thanks to an extension of the agreement between the OPEC and the allies to cut oil production and geopolitical tensions in the Middle East. Basic metal prices also showed a good performance during the year, mainly due to a greater industrial activity in China. In 2017, world food prices reached the highest level since 2014. Gold prices were relatively stable given the prospects of monetary policy normalization in the major economies.

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With respect to global liquidity, the United States started a balance sheet normalization process. This raised doubts about the potential effects that such process would have on capital flows. Moreover, this country ended the fiscal year with an increase in rates fully expected by the markets and with perspectives to gradually continue its monetary policy normalization. The Bank of England increased the monetary policy rate for the first time since 2008, due to a diminished idle capacity in the economy and an inflation rise above target as a result of the currency devaluation. During the last quarter, the European Central Bank announced that it would extend its bond purchase program but reducing the amount involved. Despite the above, after two consecutive years of low income, Emerging Market economies showed a greater investment dynamism in 2017, mainly oriented to debt markets due to the several debt issuance programs launched by governments and companies. This improvement was the result of a greater global risk appetite which is close to the maximum post-crisis level and better Emerging Markets' growth prospects that would offset the potential rise in global interest rates. In 2017, net capital flows recorded the first positive result since 2014, being Argentina as one of the main beneficiaries.

With respect to the domestic market, data for the third quarter of 2017 not only reflected the highest y/y growth since the second quarter of 2013, but also showed a record in economic activity. The GDP y/y variation completed three consecutive periods of growth (4.2%) for the third quarter. In terms of seasonally adjusted data, the economy completed five consecutive periods with positive results, with a 0.9% expansion as against the second quarter of 2017. Mention should be made that, during the third quarter, the economy surpassed the maximum level of growth attained in the third quarter of 2015.

During the third quarter, demand was influenced by consumption and investment. Global demand increased for the third consecutive quarter given the excellent performance of gross capital formation and private consumption. Likewise, exports of goods and services increased after two quarters with negative variations, while imports showed greater dynamism. However, when comparing data for the previous quarter, seasonally adjusted figures showed a 2.5% growth in fixed domestic growth investment and a 1.4% rise in total consumption. Both variations were less than half the figures for the previous quarter. Imports grew by 4.6% and exports rose 2.4%, thus reversing the negative trend of the previous period.

With respect to supply, the rise in domestic production was supplemented by a significant growth in imports. Thus, global supply increased 7.4% y/y as a result of the GDP variation and an 18.7% y/y growth in imports of goods and services (the greatest expansion since the third quarter of 2011). Imports (in volume) surged to a historical record, though their share on total supply is still below the level prior to the international crisis.

Favorable conditions are expected to continue in the future. In the BCRA's Market Expectations Survey, analysts forecast a 1.0% (not seasonally adjusted) increase in GDP in the fourth quarter with a 2.9% y/y rise by the end of the year. GDP would expand 0.8% during the first and second quarters of 2018.

With respect to prices, the disinflation process continues, but at a lower pace than expected by the monetary authority. The Consumer price Index (national CPI) showed a slight acceleration in the fourth quarter, with a monthly average rise of 2.0% (0.3 pp above the figure of the third quarter). This behavior was the result of an increase in regulated prices which, during the quarter, rose at a monthly average rate of 4%. The monthly core inflation rate averaged 1.4% in the fourth quarter (without taking into account the behavior of the seasonally and regulated prices of goods and services), below the 1.6% recorded in the third quarter of 2017. Thus, retail prices increased 24.8% in 2017, showing a strong deceleration as against the previous year, even though they still stand above the level targeted by the monetary authority for 2017.

According to market expectations, inflation rate will be 17.4% in 2018, slightly above the inflation target set by the monetary authority. In 2019, inflation rate is expected to be 11.6%.

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As regards the external sector, exports showed a slight increase in line with the recovery achieved in 2016. However, they still stand quite below the historical peaks observed in 2011. This behavior was the result of a greater dynamism in manufactures of industrial origin factures (MIO) and Fuels and Energy which was partially offset by the drop in Primary Goods and Manufactures of Agricultural Origin (MAO). Imports also performed dynamically, thus consolidating economic growth and investment. Imports grew nearly 20% over 2016, reversing the contractive trend evidenced during the last four years. They were boosted by the expansionary behavior of all surveyed segments. The higher relative increase of imports over exports resulted in a substantial trade deficit which reversed the surplus produced in 2016.

With respect to the fiscal accounts of the non-financial public sector, in the January/September 2017 period, income growth stood above the expansion of primary expending with variations of 30.7% y/y and 26.9% y/y, respectively. Notwithstanding the above, the evolution of total income in terms of annual accumulated figures was mainly boosted by the tax amnesty regime, which accounted for an additional 3.6 pp increase in total income. When considering the above, total income slightly grew over primary expending.

The Primary expending growth was limited by the reduction in economic subsidies (-18.0% y/y). The higher y/y increases were observed in contributions to social security (39.8% y/y), social plans (34.6% y/y), current transfers to the provinces (33.9% y/y), capital expenditure (29.25 y/y) and salaries and wages (28.1% y/y).

During the January/September period, the primary result recorded a deficit of 2.2% in GDP, in line with the fiscal target (4.2% of GDP) set by the government in early 2017. The primary deficit net of property income totaled $222,379 million, (6.1 %, over the same period of 2016). The financial deficit was $370,989 million, 26.4% above the previous year, mainly due to the interest payments maturing during the period (76.9% y/y).

Before the approval of the 2018 National Budgetary Project (NBP), the Law on Pension Reform was passed along with a package of economic laws such as the Tax Reform, Fiscal Consensus and Fiscal Responsibility laws. The agreement reached on pension matters will allow gradual changes in the fiscal policy (with fiscal savings of nearly 0.6% of GDP). With a view to decreasing the primary deficit, the remaining measures included in the approved package will be implemented while maintaining the subsidy reduction policy and complying with the public works programs.

Under the tax reform, the income tax will be reduced for companies reinvesting their profits, employer's contributions to the social security system will be gradually lowered, financial income will be levied (exempted up to now) and the excise tax regime will be modified (electronic goods and non-luxury automobiles and motorcycles will no longer be levied). Rises were proposed for luxury cars, cigarettes and alcoholic beverages, while sodas, wines and sparkling wines were exempted. In five years, this tax reform will imply a fiscal cost of nearly 1.5% of GDP (about 0.3% of GDP each year up to total implementation).

Later, the so called "Fiscal Consensus", the Fiscal Responsibility Law and the approval of the NBP 2018 were discussed. The dispute for the Conurbation Fund *(Fondo del Conurbano)*, the most important claim of the Province of Buenos Aires, is one of the main issues to be settled by the Fiscal Consensus signed by 22 provinces and the Autonomous City of Buenos Aires. The essential changes are related to the elimination of section 104 of the Income Tax Law, the reallocation of 100% of the amounts collected on account of banking debits and credits to the National Social Security Administration (*Administración Nacional de Seguridad Social - ANSES*) and the issuance of a bond for all provinces (except for Buenos Aires). The provinces committed themselves to lower distortionary taxes, such as those on Gross Revenue and Seals, to reevaluate at market values real properties for taxation purposes and to enforce a Fiscal Responsibility Law at the municipal level. This fiscal pact will mean a cost for the National Government of approximately 0.3% of GDP.

The Fiscal Responsibility Law intends to limit the provincial expenditure growth. All jurisdictions shall keep primary spending constant in real terms, debt interest shall not surpass the 15% of the co-participation funds transferred to municipalities and the public officer/population level (National Institute of Statistics and Censuses - INDEC) relation shall not be increased.

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The 2018 NBP forecasts a primary fiscal deficit of 3.2% of GDP for 2018; income and primary spending are expected to grow by 19.0% and 15.1% y/y, respectively. Such targeted primary deficit is conditioned upon the fulfillment of all provisions included in the Pension Reform and the package of economic laws.

With respect to the monetary and financial markets and despite the stringent anti-inflationary monetary policy, the credit market continues boosting the activity expansion.

Effective as of January 2017, the BCRA set the center of the 7-day repo rate (average between lending and borrowing rates) as the new monetary policy rate. The volatility of prices during the last quarter of the year led the BCRA to raise its monetary policy rate -the center of the 7-day repo corridor- to reach 28.75% p.a., expanding in that way the corridor width. Thus, the 7-day reverse repo rate stood at 28.0% p.a. while the repo rate at 29.5% p.a. The volatility of monthly inflation caused the BCRA to act cautiously and, in case of need, it is ready for a new intervention.

With the approval, in late December, of the economic reforms by the National Congress, the Government moved forward with its plan of permanent reforms, unexpectedly changing the inflationary goals to bring them close to market expectations. Thus, inflationary goals for 2018, 2019 and 2020 were set at 15%, 10% and 5%, respectively. After the announcement of the new inflationary goals, during the first meeting held in 2018, the monetary policy committee decided to reduce 75 b.p. the monetary policy rate to reach 28.0% p.a.

In an effort to keep assets in line with liabilities, the BCRA kept on increasing its stock of international reserves. At late December 2017, they amounted to US$55,055 million, US$4,818 million over September 2017 figures, totaling a US$16,283 million increase as against December 2016.

During December 2017, the monetary base recorded a 24.7% y/y variation, 1.4 p.p. lower than in November. The demand for monetary base was satisfied with the expansion associated to the purchase of US dollars, transfers to the National Treasury and reduction in the balance of LEBAC holdings and repos with the BCRA.

The dynamism of the financial market was due to the strong demand for loans, especially those destined to individuals, i.e. consumer and mortgage loans. Private sector loans denominated in pesos rose 15% in the fourth quarter of the year as the result of the increase in mortgage loans (33%) and advances in checking accounts (17.6%), which grew over the quarterly average. Consumer loans in pesos and credit card payments hiked 14% and 12.8%, respectively, during the quarter. Total private loans in US dollars rose 4.7% mainly on account of foreign trade-related unsecured documents.

Total deposits show a lesser growing dynamism mainly due to other most attractive investment alternatives. Total private deposits ($ + US$) rose 10.4% in the quarter, a 4.2 p.p. improvement over the previous quarter. This was due to the better performance of both peso placements and dollar placements measured in terms of local currency. In the fourth quarter of 2017, peso deposits expanded 11% while dollar placements 8.7%.
The described performance of loans and deposits affected rates and liquidity levels. In the last months, the high policy rates were accompanied by increased borrowing rates: BADLAR (private banks) grew 1.9 p.p. in the quarter (23.3% annually) while the 30-day fixed term deposit rate rose 2.2 p.p. (21.3% annually) in the same period. The interest rate paid on fixed term deposits for $20 million or more, at 30/35 days (TM20), rose 2.1 p.p. over the previous quarter, standing at 24.3% annually.

1.a. Position of the Bank

The Bank has a considerable exposure to the Argentine public sector, through rights, government bonds, loans and other assets, recorded in the Financial Statements and Annexes for approximately $36,731,393 and $28,958,493 at December 31, 2017 and 2016, respectively. Such exposure results mainly from debt restructuring by the Argentine Government, compensation for the effects of devaluation and asymmetric conversion into pesos, financial assistance to the Government of the Province of Buenos Aires, as stated in Articles 9(B) of the Bank's Charter and other facilities granted. Likewise, the

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Bank's investments in securities issued by the BCRA amount to $36,891,596 and $35,625,966 at December 31, 2017 and 2016, respectively.

Through Executive Orders Nos. 1620, 2094 and 2190 dated December 28, 2012, Nos. 1679 and 1680 dated December 30, 2013 and Nos. 1784 of December 30, 2014, the Provincial Executive Branch provided for the issuance of bonds for the settlement of advances of pension contributions to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel (*Caja de Jubilaciones, Subsidios y Pensiones del Personal del Banco de la Provincia de Buenos Aires*) and the consolidation of the debt between the Province and the Bank. At the date hereof, such bonds were not issued.

Finally, Executive Order No. 2100 dated December 30, 2014 provided for the issuance of the above-mentioned bonds in order to settle the advances. Moreover, on December 1, 2015, the Executive Order No. 1954 approved the issuance of bonds for the partial settlement of advances of pension contributions to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel arisen during 2014. At the date hereof, the mentioned Bonds were not issued since the National Ministry of Economy's approval is still pending. (See Note 20.3).

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.

In addition, as mentioned in Note 16 to these Financial Statements, at December 31, 2013, the Bank did not comply with all the commitments undertaken through Resolution No. 92/11. Therefore, on December 18, 2014, and August 4, 2015, the Bank submitted to the BCRA a Compliance Schedule for the 2015-2018 period aimed at achieving self-capitalization through the generation of earnings and its inclusion in the prudential regulations in force. The maintenance of the exemptions contemplated in Resolution No. 92/11 and additional exemptions were also requested.

The Bank continued developing commercial actions to maintain its competitiveness within the market and comply with its role as a state-owned bank. To that effect, it not only granted financing in accordance with section 24 s) of its Charter - which stipulates that the Board of Directors shall be authorized to grant loans to artificial persons from the private sector for an amount not exceeding $50,000, or five per cent (5%) of the Bank's Net Worth, and loans to natural persons for up to $10,000, but also offered a wide range of lending alternatives under favorable terms so as to foster investment, production and employment, particularly in small and medium-sized enterprises, and other various facilities for the acquisition of durable consumer goods and personal spending.

Finally, the Bank is directing its efforts towards several projects with direct impact on its activity, the consolidation of its IT systems and updating of the technological resources in line with innovation.

1.b. BCRA Reporting Systems

On December 18, 2014, the Bank submitted to the BCRA a Compliance Schedule for the 2015-2018 period (See Note 16).

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Communication “A” 4093 set the maximum limit for the Immobilized Assets ratio at 100% of the Bank’s Adjusted Net Worth. The Bank complies with the regulation in force at the individual and consolidated levels and duly submitted the pertinent information at December 2017.

On April 28, 2017, the BCRA issued Communication "A" 6233, establishing that, as of May 1, 2017, the limit of the Net Overall Position in Foreign Currency -in monthly average daily balances converted into pesos at the reference exchange rate- shall not exceed 30% of the lesser of the Adjusted Net Worth or its own liquid assets for the pertinent previous month.

With respect to the General Exchange Position, on May 4, 2017, the BCRA issued Communication “A” 6237, establishing that the financial institutions authorized to carry out foreign exchange transactions may freely determine the level and use of their general exchange position.

Communication “A” 6088 issued on October 27, 2016 and effective for 7 months till May 31, 2017 inclusive, does not introduce changes in the weighting indicators for calculating the maximum limit for the General Exchange Position, which shall not exceed 15% of the equivalent amount in US dollars of the Adjusted Net Worth at the end of the month next preceding the last month in which the presentation to the BCRA shall have expired. However, with regard to Financial Institutions, it does introduce changes so as to include deposits made under Law No. 27260 - Tax Amnesty Regime (item 4 of Communication "A" 4646, amended by Communication “A” 4814).

Communication “A” 4546 of the BCRA provided that, effective July 1, 2007, the average overall monthly assistance to the national, provincial and municipal non-financial public sector, except for transactions with the Central Bank, shall not exceed 35% of total assets as of the last day of the preceding month. Whenever such limit is exceeded, 100% of the excess shall imply an equal increase in the Minimum Capital Requirement for Credit Risk. Likewise, limits were set for assistance to the municipal and provincial public sector. The Bank’s records show excesses in these limits.

By Resolution No. 92/11, the BCRA decided to accept that said limit were not applied to certain financial assistances. The Bank requested to maintain said exemptions and other additional ones. (See Note 16).

At the date of these financial statements, the BCRA made no comments on the above requests.

According to the provisions of Communication “A” 5154 of the BCRA, financial institutions may not refinance nor grant financial assistance to the Non-Financial Public Sector, except that they were allocated to Trust or Trust Funds created for specific purposes, or those expressly authorized by the BCRA.

Additionally, the Bank also shows excesses in the limits imposed by the current regulations of the BCRA on the diversification of the credit risk involving the non-financial public sector. Such excess amounts result in a higher minimum capital requirement. As mentioned above, by Resolution No. 92/11, the BCRA decided to accept for minimum capital requirement purposes, any shortfalls recorded until the earlier of December 2013 or the date of final compliance. The Bank requested to maintain said exemptions and other additional ones. With respect to the private sector, the Bank has not exceeded these limits. (See Note 16).

On January 8, 2015, the BCRA issued Communication “A” 5694 informing financial institutions that it decided to add, as of January 1, 2016, an additional minimum capital requirement equivalent to 1% of risk weighted assets which shall be required to financial institutions deemed as “Domestic Systemically Important Banks” by the BCRA. At the date of issuance of these Financial Statements, the BCRA has not issued the list of Domestic Systemically Important Banks and the Bank has not been notified on this matter.

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As regards the minimum capital reporting system, the BCRA issued Communication "A" 5831 dated November 18, 2015, establishing that for calculating the stand-alone and consolidated monthly figures at December 1, 2015, the pertinent items shall be computed taking into account the daily balances at the last day of each month. The monthly average daily balances shall be disclosed as supplementary information.

Likewise, such Communication provided for the deduction of investments in instruments computed as regulatory capital of companies rendering services supplementary to the financial activity not subject to consolidated supervision and insurance companies. Deductions shall be applied according to the following schedule: 40% from December 2015 to December 2016; 70% from January 2017 and 100% from January 2018.

On December 30, 2015, BCRA's Communication "A" 5867 introduced amendments to the rules on Minimum Capital Requirements and Guidelines on Risk Management, effective March 1, 2016. Such communication modified the calculation of minimum capital requirements for market risk.

On December 15, 2017, the BCRA issued Communication "A" 6397 which refers to "Guidelines on Risk Management in Financial Institutions". Such Communication modified the management of the interest rate risk in the Investment Portfolio, effective July 1, 2018.

On July 1, 2016, the BCRA issued Communication "A" 6004 adding a new paragraph related to the "External Credit Assessment Institutions" (ECAIs). It provides that credit assessments made by external credit assessment institutions shall only by used for the determination of the risk exposure indicator when the involved ECAI has been previously recognized as eligible for those purposes by the BCRA. During October 2017, the BCRA issued communications "A" 6343, 6344 and 6346 in relation to eligible ECAIs.

Under the terms of Article 9, Paragraph B of the Bank's Charter - Decree Law No. 9437/79, at December 31, 2017 and 2016, the Bank granted financing to the Provincial Government for a total amount of $3,941,770. At the date of issuance of these Financial Statements, the Bank granted no new financial assistance to the Provincial Government under these terms. Accrued interest receivable for the above-mentioned assistance totaled $3,764,358 and $2,963,466 at December 31, 2017 and 2016, respectively.

Additionally, at December 31, 2017 and 2016, the Bank recorded receivables on account of advances of pension contributions to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel for $5,313,786 and $7,468,923 respectively. (See Note 20.2).

As of December 31, 2017 and 2016, the Bank recorded receivables on account of collections in kind for consolidation of debts with the Province of Buenos Aires and advances of pension contributions to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel for $7,464,152. (See Note 20.3).

On March 16, 2017, the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel settled the 2015 and 2016 deficits by submitting government securities for a nominal value of $7,374,348. At December 31, 2017, such government securities are recorded under the "Government and Corporate Securities" caption. These holdings are booked at cost plus yield for $7,855,342. (See Note 20.3).

Likewise, at December 31, 2017 and 2016, the Bank granted other financial facilities for $1,237,571 and $787,481, respectively.

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Note 2 – Basis of Presentation of the Financial Statements

Application of Accounting Standards

Banco de la Provincia de Buenos Aires prepares its Financial Statements pursuant to the Accounting Standards established by the Argentine Central Bank. Likewise, as an institution of the Province of Buenos Aires, the Bank is subject to audits by the General Accounting Office and the Auditing Office of the Province of Buenos Aires for budgetary performance purposes.

The figures shown in the Financial Statements derived from books of accounts that were signed by the General Accounting Office of the Province of Buenos Aires, which have been kept in accordance with usual procedures.

The Financial Statements are presented in accordance with the disclosure policies established by the BCRA.

Pursuant to BCRA’s Communications “A” 4265 and 4667, the Balance Sheet and Annexes, the Statement of Income, the Statements of Changes in Net Worth and the Statement of Cash Flows and Equivalents for the fiscal year ended at December, 31, 2017, are compared with those presented at December 31, 2016.

The Financial Statements include the account balances corresponding to the transactions carried out by the Bank in Argentina and in its branches abroad. They have been prepared pursuant to the standards of the Argentine Central Bank and include the assets, liabilities and results of operations of the Bank's overseas branches derived from their Financial Statements, as especially adjusted following the valuation and disclosure criteria set by the BCRA.

The following procedures were applied to translate the Financial Statements of overseas branches into pesos:

- Assets and Liabilities were converted into pesos using the BCRA reference exchange rate for foreign currency transfers, effective at the end of each fiscal year.
- The allotted capital was calculated on the basis of the amounts actually disbursed, as restated according to changes in the currency purchasing power until August 31, 1995, when adjustments for inflation were discontinued. Subsequent allocations originating in the stability period were expressed in the currency effective at December 31, 2001 and their balances were restated at February 28, 2003.
- The Retained Earnings were determined as the difference between Assets, Liabilities and allotted Capital, restated at 02.28.03.
- Net Income for the fiscal year was determined as the difference between the retained earnings at the beginning of the period, as restated, and the retained earnings at closing.
- Items arising from transactions between domestic and foreign branches not involving third parties were removed from the Balance Sheet and the Statement of Income.
- Exchange differences arising from currency translation were allocated to “Financial Income – Other” or “Financial Expenditure – Other” captions in the Statement of Income, as appropriate.

The Financial Statements recognize the changes in the currency purchasing power until February 28, 2003, according to the National Executive Order No. 664/03 and BCRA’s Communication “A” 3921.

Argentine professional accounting standards establish that financial statements shall be prepared recognizing changes in currency purchasing power according to the provisions of Technical Resolutions (TR) No. 6 and No. 17, as amended by TR No. 39 and by Interpretation No. 8. These standards were issued by the Argentine Federation of Professional Councils in Economic Sciences (*Federación Argentina de Consejos Profesionales de Ciencias Económicas - FACPCE*). They state that the adjustment for inflation shall be applied upon the existence of an inflationary context characterized, among other features, by a three-year accumulated inflation rate, reaching or exceeding 100%, by application of the General Wholesale Domestic Price Index published by the INDEC. Upon reaching such rate, the pertinent financial statements shall be restated as from the datethe adjustment was discontinued.

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However, the economic variables that affect the Bank's activity, such as wage cost, interest rate and exchange rate, have registered significant variations in the last fiscal years. These variables could affect the Bank's financial statements and statement of income. Therefore, they must be considered when interpreting the information about the Bank's financial situation, results and cash flows.

At the date hereof, the BCRA issued no regulations in relation to the above-mentioned paragraph.

Valuation Criteria

The main valuation and restatement criteria that were followed for the preparation of these Financial Statements are described below:

2.1. Statement of Cash Flows

The criterion for the preparation of this Statement identifies the "Cash and Due from Banks" caption as cash and cash equivalents.

2.2. Valuation of Assets and Liabilities in Foreign Currency

At December 31, 2017 and 2016, Assets and Liabilities denominated in US dollars were valued at the BCRA reference exchange rate for US dollars, prevailing at the close of business on the last business day of the year ($18,7742 and $15,8502, respectively). Likewise, Assets and Liabilities denominated in other foreign currencies were converted at the rates informed by the foreign exchange department of the Argentine Central Bank. Any exchange differences were charged to the income/(loss) of each fiscal year.

Foreign exchange regulations in force at February 16, 2017 are set forth in BCRA's Communiqué No. 50853.

2.3. Valuation of Government and Corporate Securities

At December 31, 2017 and 2016, government and corporate securities, including BCRA's debt instruments, were valued in conformity with the provisions on "Valuation of non-financial public sector debt instruments and BCRA monetary regulation instruments" established in Communication "A" 5180, as supplemented.

a. Securities booked at fair market value

They are recorded at their market or present value, as appropriate. These securities have been valued at the market price prevailing on the Buenos Aires Stock Exchange or other pertinent foreign stock exchanges on the last business day of the fiscal year.

At December 31, 2017 and 2016, the Bank also recorded the Discount Bonds received in exchange for defaulted public debt securities (Executive Order No. 1735/04) valued at NV$10,324 and NV$10,404.

b. Holdings recorded at cost plus yield

They are valued at their acquisition cost, increased on a monthly basis by the internal rate of return, according to the applicable accrual criterion, except for Guaranteed Bonds under Executive Order No. 1579/02 - Bogar 2018 (NV$5,089 million) measured at their technical value until final amortization, pursuant to Resolution No. 92/11 issued by the BCRA, as mentioned in Note 2.18. (See also Note 16)

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At December 31, 2017, Bonds of the Province of Buenos Aires valued at cost plus yield are included unless their book value is higher than the present value, in which case, the accrual of the internal rate of return is charged to an adjustment account (BCRA's Communication 5180, section 2.2.5. See also Note 20.3).

2.4. Interest Accrual and Adjustments Methods

Interest accruals have been calculated on an exponential basis for both Loans and Deposits. The straight-line method has been used for interest accrual on Foreign Trade Transactions and transactions carried out by Foreign Branches.

As provided for by Executive Order No. 214/02, as supplemented, and the corresponding Resolutions issued by the BCRA, certain Assets and Liabilities originally denominated in foreign currency were adjusted by the CER Index.

2.5. Securities to Be Received and Delivered under Spot and Forward Transactions

As stated in Note 2.18, securities to be received are recorded at their technical value while securities to be delivered are valued at the pertinent market quotation prevailing at the closing date of each fiscal year.

2.6. Amounts to Be Collected and Paid under Spot and Forward Transaction

They were valued according to the prices agreed upon for each transaction, plus the relevant premiums accrued at the closing date of each fiscal year.

2.7. Valuation of Assets under Financial Leases

They were measured at the discount value of aggregate minimum lease installments and any non-secured residual value.

2.8. Valuation of Interests in Other Companies

They have been valued as follows:

Unlisted Controlled Companies:

- In pesos: At their equity value, according to the Financial Statements at December 31, 2017 and 2016, taking into account the pertinent adjustments and eliminations as detailed in Note 2 to the Consolidated Financial Statements.

Unlisted Non-Controlled Companies:

- In pesos: At their acquisition cost, restated at August 31, 1995 and then, as stated in Note 2 "Application of Accounting Standards", from January 1, 2002 until February 28, 2003; interests included subsequent to that date, at their acquisition cost not restated for inflation and not in excess of the lower of their equity value or their known realizable value.

- In foreign currency: At their original cost in foreign currency translated into pesos according to the procedure mentioned in paragraph 2.2. above and not in excess of the lower of their equity value or known realizable value.

2.9. Valuation of Bank Premises and Equipment and Miscellaneous Assets, including methods used for the calculation of depreciation

Assets corresponding to branches located in Argentina have been valued at their acquisition cost plus the highest value for technical revaluations during previous years, restated in constant currency at February 28, 2003, as mentioned in Note 2 "Application of Accounting Standards", less the applicable accumulated depreciation. Furthermore, assets of branches located abroad have been mainly valued at their acquisition cost in foreign currency, net of the applicable accumulated depreciation, translated at the exchange rates in effect at the end of fiscal year.

Depreciation of these assets is calculated on the basis of their useful life expressed in months, recognizing full-month depreciation in the first month of ownership.

The net residual values of these assets, taken as a whole, do not exceed their use value.

2.10. Valuation of Other Miscellaneous Assets

Investments in works in progress and advances for the purchase of assets, including imports not cleared through customs and investments in works of art, have been valued at their acquisition cost, restated for inflation according to Note 2 "Application of Accounting Standards".

Their net book values do not exceed the corresponding use values at December 31, 2017 and 2016.

2.11. Valuation of Intangible Assets

Intangible Assets have been valued at their acquisition cost, restated for inflation, less the applicable accumulated depreciation.

This caption includes Organization and Development Expenses of the Head Office in Argentina and the Sao Paulo and Montevideo Branches.

It also includes differences arising from compliance with judicial resolutions, which were recorded by the Bank pursuant to the provisions of Communications "A" 3916 and 4439 of the Argentine Central Bank as mentioned in Note 20.7.

Amortization charges are computed under the straight-line method over a maximum 60-month term as of the month of acquisition.

2.12. Valuation of Loans, Other Receivables, Deposits and Other Government Security Debts

They have been valued at the pertinent market price of the securities lent or received in deposit prevailing on the Buenos Aires Stock Exchange and other foreign stock exchanges on the last business day of the fiscal year, except for forward purchases/sales for Repo/Reverse Repo transactions carried out with unlisted Government Securities and instruments issued by the BCRA, which have been valued pursuant to Notes 2.3 and 2.18.

2.13. Accounting Treatment of Assets Purchased under Financial Leases

At December 31, 2017 and 2016, the Bank has no third-party lease contracts under which the purchase option has been exercised.

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2.14. Allowance for Uncollectibility Risk and Provision for Contingent Liabilities

They have been set up on the basis of the estimated uncollectibility risk of the Bank's credit assistance taking mainly into account the analysis of the debtors' future repayment capacity, through the assessment of their degree of compliance, economic and financial condition and the guarantees supporting the pertinent transactions according to the provisions set forth by the BCRA.

2.15. Provisions for Other Contingencies

They include the estimated amounts held by the Bank to meet probable risks, such as settlement of pending labor and commercial lawsuits, credit card users' uncollectibility, claims for rescheduled deposits, illicit activities against the Bank, loss-generating commitments, and other possible contingencies for $988,616 and $768,214 at December 31, 2017 and 2016, respectively.

Pursuant to Communication "A" 4686 issued by the BCRA on July 4, 2007, the Bank has set up provisions for any difference between the equivalent value in pesos of court-ordered deposits originally in foreign currency and the book value of those foreign currency deposits that, on January 5, 2002, fell within the provisions of Law No. 25561 and Executive Order No. 214/02. At December 31, 2017 and 2016, such provisions amounted to $29,108 and $31,100, respectively.

2.16. Income Tax

By virtue of the Bank's institutional nature, Article 4 of its Charter – Executive Order No. 9434/79, as amended, provides that the Bank, its assets, acts and doings, agreements, contracts and transactions as well as all rights arising therefrom in the Bank's favor, are exempt from any liens, taxes, charges or duties of any nature whatsoever, by which reason no provision is required for income tax on transactions conducted by the Bank's Home Office and local branches.

2.17. Severance Pay

Severance payments are charged to income/(loss) in the month when the dismissal occurs.

2.18. Secured Loans and Guaranteed Bonds - Executive Orders Nos. 1387/01 and 1579/02

National Exchange

As a result of the Exchange of National Public Debt Securities for new financing instruments called "Secured Loans" (Executive Order No. 1387/01), the Bank holds $287,633 and $604,341 under the "Loans" caption at December 31, 2017 and 2016, respectively. They account for the Secured Loans received in exchange for own holdings and from the repayment of loans, valued at the lower of their Technical Value or their Present Value, according to Communication "A" 3911, as amended.

Such "Secured Loans" were recorded at the Technical Value of the securities delivered, i.e. US$243,414 (value in accordance with the terms and conditions of the issuance plus interest accrued at November 6, 2001). As required by the BCRA, the positive difference between this value and the book value is recorded in a Secured Loans Adjustment Account as unrealized valuation difference, and is monthly charged to income/(loss) according to the term of the loans.

The Professional Accounting Standards would have required Secured Loans to be included in the Bank's Assets at the market price of the exchanged Government Securities. At the exchange date, such market price amounted to approximately US$107,241.

In its Communication "A" 4898, the BCRA set forth the guidelines for a new securities exchange designed to ease the government's financial burden in the short term. Under this exchange, bonds may be valued using another methodology

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so as to alleviate the potential impact of the financial crisis on the balance sheets of financial institutions. On January 23, 2009, the Bank exchanged Global 2008 Secured Loans at fixed rate for ONV US$143,755.

Provincial Exchange and Compensation according to sections 28 and 29 of National Executive Order No. 905/02

The Bank has submitted for exchange Provincial Government Securities and other provincial receivables as provided for by Executive Orders Nos. 1387/01 and 1579/02. Under the latter Executive Order, the Exchange would be implemented through Guaranteed Bonds 2018 issued by the Trust Fund for Provincial Development, secured by part of the funds corresponding to the Provinces from the Federal Revenue Sharing of Taxes and, subsidiarily, by the National Government through the automatic allocation of resources derived from the Tax on Debits and Credits in Bank Checking Accounts and from the federal share in the secondary distribution of shared taxes.

At December 31, 2017 and 2016, the Guaranteed Bonds 2018 were informed under the "Government Securities at Cost plus Yield", "Other Receivables from Financial Brokerage – Other not included in the Debtors' Classification Rules" and "Miscellaneous Receivables" captions for $912,756 and $4,881,432, respectively.

Taking into account the exemption granted by the BCRA through Resolution No. 92/11, which is deemed to be in force, during 2017, the Bank maintained its holding of Guaranteed Bonds under Executive Order No. 1579/02 - Bogar 2018 (NV$5,089 million) at their technical value until final amortization (See Note 16).

At December 31, 2017 and 2016, the book value of the assets resulting from the compensation received according to Sections 28 and 29 of the National Executive Order No. 905/02 amounted to $24,393 and $130,456, respectively.

At December 31, 2017 and 2016, the market value of all Guaranteed Bonds 2018 was $928,773 and $4,570,071, respectively.

2.19 Accounting Estimates

The preparation of the financial statements in accordance with the BCRA's accounting standards requires the Bank's Board of Directors and General Management to make estimates that affect the determination of assets and liabilities, to disclose contingencies at the reporting date as well as the income/expenditures for each period/year. Future income/losses may differ from the estimates made at the date of preparation of these financial statements.

2.20 Valuation of receivables on account of Advances made to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel and Bonds to be received from the Province of Buenos Aires (Note 20.3)

They were valued at the lower of the best estimate of the amounts receivable discounted at the market rate reflecting the market calculation of the time value of money and the specific risks of such assets at valuation date, or the funds originally disbursed.

Note 3 - Differences between the Professional Accounting Standards and the Accounting Standards Set by the Argentine Central Bank

The Professional Council in Economic Sciences of the Province of Buenos Aires (*Consejo Profesional de Ciencias Económicas de la Provincia de Buenos Aires*) has approved Technical Resolutions Nos. 16 through 44, which are in force at the date of issuance of these Financial Statements.

However, the Central Bank has not adopted all the above standards. Therefore, the Bank has prepared these Financial Statements without considering the valuation and disclosure criteria included in the Professional Accounting Standards in force in the Province of Buenos Aires.

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The main differences between the current Professional Accounting Standards and the standards set by the Argentine Central Bank lie on valuation criteria and are listed hereunder:

3.1 Non-Financial Public Sector - Allowances

The current regulations on allowances issued by the BCRA establish that receivables from the Public Sector are not subject to allowances for uncollectibility risks. Pursuant to the Professional Accounting Standards, such allowances must be estimated according to the recoverability risk of assets.

The Bank has not quantified the effects of the application of current Professional Accounting Standards on the valuation of such transactions.

3.2 Valuation of Assets with the Non-Financial Public Sector

3.2.1 Secured Loans and Guaranteed Bonds:

As stated in Note 2.18, during the fiscal year ended December 31, 2001, the Bank exchanged National Government Securities, Provincial Government Securities and Provincial Loans with the National Government for a nominal value of US$4,302,344, the book value of which amounted to $4,201,349 at November 6, 2001, and received Secured Loans in exchange for the National Government Securities and Guaranteed Bonds 2018 in exchange for the Provincial Government Securities and Provincial Loans.

At December 31, 2017 and 2016, the above assets have been valued at the exchange values set by the Ministry of Economy at November 6, 2001, plus the corresponding accrued interest until the end of the period, converted into pesos at the exchange rate of $1.40 and updated by the CER index, net of the adjustment accounts' balance. (See Note 2.18).

According to the Professional Accounting Standards, a change in the original terms of the Loans would imply a replacement of instruments; the new Assets should then be booked on the basis of the best estimate of the amounts receivable, as discounted at the market rate in force when making the initial appraisal.

The Bank was unable to quantify the effects of the application of current Professional Accounting Standards on the valuation of such transactions.

3.2.2 Compensation according to Sections 28 and 29 of National Executive Order No. 905/02 and Provincial Exchange:

At December 31, 2017 and 2016, the Bank recorded at their technical value under the "Government Securities at Cost plus Yield" , "Other Receivables from Financial Brokerage - Other not included in the Debtors' Classification Rules" and "Miscellaneous Receivables" captions, the Government Securities (Bogar 2018) received on account of the compensation established in sections 28 and 29 of the National Executive Order No. 905/02 and in the Provincial Exchange provided by Executive Order Nos. 1387/01 and 1579/02. (As stated in Note 20.6).
In accordance with current Professional Accounting Standards, the above assets must be measured at their market value.

At December 31, 2017 and 2016, the book value of the assets resulting from the compensation received according to sections 28 and 29 of the National Executive Order No. 905/02 amounted to $24,393 and $130,456 respectively. If valued at their market quotation on the same date, they amounted to $24,821 and $122,135, respectively.

Moreover, the book value of the securities resulting from the Provincial Exchange at December 31, 2017 and 2016 (valued at their technical value as detailed in Note 2.18) amounted to $888,363 and $4,750,976, respectively. If valued at their market quotation on the same date, they amounted to $903,952 and $4,447,936, respectively.

See our report dated
March 01, 2018
KPMG

(Partner)

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			Taxpayer registration code: 20-12400104-9

Banco Provincia

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3.3 Payments ordered by injunctions

As stated in Note 20.7, the Bank recorded under the "Intangible Assets" caption $43,545 and $55,835 at December 31, 2017 and 2016, respectively, on account of exchange differences resulting from compliance with Communications "A" 3916 and "A" 4439 of the BCRA. Since the professional accounting standards' valuation and disclosure criteria require reducing the book value of any excess amounts paid by the Bank to their recoverable value, such registration is not applicable.

3.4 Accounting for Instruments issued by the BCRA

At the date of these Financial Statements, the Bank has no BCRA Bills valued at cost plus yield.

At December 31, 2017, the Bank holds dollar-denominated Treasury Bills valued at cost plus yield for a book value of $4,420,069. Their net realizable value was calculated at $4,428,686.

3.5 Accounting for Derivative Financial Instruments

At December 31, 2017, the Bank holds Forward Transactions with delivery of the underlying asset, which are valued according to BCRA's regulations, as described in Note 14. This accounting policy differs from the current Professional Accounting Standards. Pursuant to such standards, derivative transactions are classified into speculative or hedge transactions; if unlisted, they are valued at their estimated market value.

3.6 Conversion of Financial Statements

The conversion into pesos of the Financial Statements of Branches Abroad for their consolidation with the Bank's Financial Statements differs from the Professional Accounting Standards in force (Technical Resolution No. 18), which require that: (a) any amount, in the Financial Statements to be converted, stated in closing foreign currency (current values, recoverable values), be converted at the exchange rate prevailing on the date of the Financial Statements; and (b) any amount, in the Financial Statements to be converted, stated in foreign currency at a date prior to closing date (for example, those representing historical costs, income, expenditures), be converted at the pertinent historical rates of exchange, restated in closing currency, when so required by the provisions of Technical Resolution No. 17. Exchange differences arising from the conversion of Financial Statements shall be considered as financial income or financial costs, as applicable.

The use of this criterion in lieu of that mentioned in Note 2 does not significantly affect the disclosure of the Bank's Financial Statements.

3.7 Penalties and Administrative Proceedings imposed on Financial Institutions

By Communication "A" 5689, the BCRA states that since January 2015, financial institutions shall set up provisions for 100% of their administrative and/or disciplinary penalties, as well as the sentences imposed by criminal trial courts, enforced or brought by the Argentine Central Bank, the Financial Information Unit (*Unidad de Información Financiera - UIF*), the National Securities Commission (*Comisión Nacional de Valores - CNV*) and the National Insurance Superintendency (*Superintendencia de Seguros de la Nación - SSN*), served upon the financial institution, regardless of their significance, even when judicial or administrative measures suspending payment have been entered into, and whatever the status of the case may be. Likewise, it provides that financial institutions shall inform such measures in their notes to the Financial Statements, whether quantified or not, as well as the summary proceedings brought by the BCRA as from the moment in which the opening of such proceedings has been served upon the institution.

Pursuant to the Professional Accounting Standards currently in force in the Province of Buenos Aires, such contingencies shall be recognized as liabilities when a high occurrence probability exists and they may be properly quantified in currency,

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which shall also be informed in the notes to the Financial Statements. When the occurrence probability of contingencies is deemed unlikely, they shall not be informed in the Financial Statements or the notes; but when the occurrence probability is deemed likely but the contingencies do not comply with the requirements to be recognized as liabilities, they shall only be informed in the notes to the Financial Statements. (See Note 20.9).

3.8 Personnel Benefits

According to the BCRA accounting guidelines, benefits paid to personnel (unused vacations, wages on account of termination of employment and other compensations) are allocated to the Bank's expenses as employees make use of those benefits, but the Professional Accounting Standards in force state that those benefits, granted as employees render their services, shall be recognized as a liability during the labor relationship period. At December 31, 2017, if the current Professional Accounting Standards had been applied in such valuation, $4,098,353 would have been recorded as Liabilities.

3.9 Accounting for Income Tax through the application of the Deferred Tax Method

According to Note 2.16, the Bank is exempted from any liens, taxes, charges or duties of any nature whatsoever. Nevertheless, Controlled Companies have recognized the Income Tax charge by the Deferred Tax liability method. This method is not admitted by the BCRA Accounting Standards.

Pursuant to the current Professional Accounting Standards of the Province of Buenos Aires, the Income Tax charge must be recognized using such method and thus, assets or liabilities must be measured by recognizing any temporary differences.

Tax losses or unused tax credits deductible from future taxable profits, if probable, should be recognized as deferred assets.

Note 4 - Changes in Valuation Criteria with respect to those Applied during the Previous Period

At December 31, 2017 and comparative periods, no changes were made to the valuation criteria applied in the previous year.

Note 5 - Prior Year Adjustment

The Financial Statements at December 31, 2017 and 2016 included negative adjustments to the “Prior Year Adjustments” caption for $13,565 and $ 125,702, respectively, generated from results derived from the correction of certain processing errors.

Note 6 – Restricted Assets

The Bank holds the following Restricted Assets:

Assets	Caption	Original Nominal Value		Pesos		Item
		12/31/2017	12/31/2016	12/31/2017	12/31/2016	
National Treasury Bills and Financial Treasury Bills	Sao Paulo Branch	7,222	7,200	380,041	296,097	Collateral for transactions with BM&F, exchange clearing house and other collateral.

See our report dated
March 01, 2018
KPMG

(Partner)

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NOTES TO THE FINANCIAL STATEMENTS

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(In thousands of pesos)

Guaranteed Bonds	Other Receivables from Financial Brokerage	89,241	560	16,006	537	Collateral for transactions with the BCRA through the MAE and ROFEX
Guaranteed Bonds	Government Securities	80,000	200,000	14,348	191,836	Collateral for transactions with the BCRA under the Bicentennial Project
Cash	Other Receivables from Financial Brokerage	-	-	4,191,582	2,943,441	BCRA collateral deposits
Credit Card Guarantee Funds	Miscellaneous Receivables	-	-	500,144	416,923	Credit Card Guarantee Funds

Nota 7 - Contingencies

On October 11, 2002, the Users and Consumers Union (*Unión de Usuarios y Consumidores*) filed a summary complaint with the National Court of First Instance in Commercial Matters No. 18, Clerk's Office No. 35, requesting the suspension of the monthly charge for insurance to cover robbery of money at ATMs when account holders withdraw cash from an ATM – either from savings or checking accounts or Bapro Electron cards–. the reimbursement of all amounts so debited and the rendering of such service free of charge.

The lower court decision, passed on September 8, 2004, ordered the Bank to pay back the amounts debited, plus interest, to those account holders who had not expressly requested, taken out or accepted such insurance, with costs charged to the Bank, but dismissed the request for the provision of such service free of charge.

After several appeals, the plaintiff requested the execution of judgment. On September 26, 2013, the Bank was compelled to refund $28,623 to customers still holding accounts with the Bank. The appeal lodged by the Bank against the Court of Appeals' resolution ordering the transfer to the National Bureau of Consumer Protection (*Defensa del Consumidor de la Nación*) and the Government of the City of Buenos Aires of $30,391 belonging to former customers was rejected. The Court reduced the pertinent fees from $13,000 to $2,000, which have already been deposited by the Bank. Plaintiff's lawyers and experts have filed an extraordinary remedy for the reduction of such amounts. This matter has not been resolved yet.

On February 10, 2005, the Users and Consumers Union filed another complaint with the National Court of First Instance in Commercial Matters No. 21, Clerk's Office No. 41, regarding the collection of fees for inter-branch transfers, which was forbidden by the emergency rules in force. After several appeals, the Court ordered the Bank to pay back any mischarged amounts. On May 23, 2014, a total of $6,458 was refunded to customers with active accounts. The appeal lodged by the Bank against the Court of Appeals' resolution ordering the transfer of funds belonging to former customers to the National Bureau of Consumer Protection and the Government of the City of Buenos Aires was rejected At the date of these Financial Statements, the pertinent fees have not been determined.

Moreover, the Association for the Defense of Consumers (*Asociación de Defensa de los Consumidores - ADECUA*) brought a class action against the Bank for the collection of fees on group life insurance premiums (Provincia Seguros) on loans. At this date, expert accounting reports are being prepared.

On November 22, 2012, the Bank was served notice of the complaint filed by Citibank for disagreement with future dollar sale transactions made before 2001. The Bank answered the complaint on December 19, 2012 and entered a motion to dismiss based on the lack of jurisdiction. In December 2014, the Supreme Court ruled favorably on the Bank's remedy and referred the case to be heard by a Federal Court instead of a National Court in Commercial Matters. To date, the case has gone to trial and is pending before the Federal Court in Civil and Commercial Matters No. 8/16.

With respect to the criminal event in its Belgrano branch that went public on January 3, 2011, the Bank received 47 claims, which are still pending. The Bank has set up the pertinent provisions and, up to date, 34 claims have already been paid.

The class action brought by a consumer association on behalf of customers whose safety deposit boxes had not been forced on such occasion (1,400 owners of safety deposit boxes claiming $250 each) was rejected. Now, the Supreme Court has to decide on the remedy filed by the plaintiff. Since the Bank considers that the Court will not sustain such complaint, no provisions have been set up.

The “Proconsumer” consumer association brought an action against the Bank for reimbursement of the amounts charged to clients on account of “financing cost for deferred credit card payments”. The association understood that said charge was neither expected nor authorized by the BCRA and that it represented a veiled interest amount. On February 26, 2015, the Court of Appeals upheld the judgment and notice was duly served on the Bank in March. The extraordinary remedy filed by the Bank was dismissed and is in the execution stage.

On September 10, 2008, Procurar filed a claim against the Bank for the revision and correction of the so-called “Salary Accounts” in order to stop the collection of certain fees and to get reimbursement of the amounts debited without a cause. The Bank has filed a plea and, after the court resolution, it will determine whether to set up provisions or lodge an appeal.

The Center for Consumer Guidance, Protection and Education (*Centro De Orientación, Defensa y Educación Del Consumidor -CODEC*) brought an action against the Bank for breach of its reporting duties under the consumers’ protection law and for other issues related to consumer loans. A motion to dismiss based on the running of the statute of limitations was introduced, and a defense based on the plaintiff's lack of legal standing to sue was also filed. On March 21, 2017, the Court sustained the latter defense on the grounds of the many deficiencies in formal requirements claimed by the Bank and rejected the action, ordering the plaintiff to pay the ensuing legal costs. The appeal filed by the plaintiff was dismissed by the Court of Appeals. A new appeal was filed by the aggrieved party requesting that such dismissed appeal be sustained by the Supreme Court.

The Bank estimates its reserves are sufficient to cover any unfavorable resolutions on these matters and other claims and, therefore, no negative effects are expected on its net worth.

Except for the situations described in this Note and in Note 1 to these Financial Statements, and the statement made in Note 16 regarding the adjustment agreement with the Argentine Central Bank, there are no significant probable contingencies, at the close of year, for which adequate provisions have not been set up.

Note 8 - Events Subsequent to Year-End

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 these Financial Statements, the pertinent regulations are still pending. The Bank cannot reasonably estimate the impact of such modification on its financial position and is analyzing the accounting effects of such change.

The Bank’s Board of Directors believes that, if necessary, the BCRA will grant the facilities necessary to address the potential impact of such modification on the financial condition of the institution.

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Note 9 - Restrictions on the Distribution of Profits

At December 31, 2016, according to the stipulations of article 17 of the Bank's Charter and through Resolution No. 154/17, dated February 17, 2017, the Board of Directors distributed total 2016 Retained Earnings to increase Legal Reserve for $608,966 and Optional Reserve for $2,435,857.

Pursuant to the mentioned article of the Bank's Charter, each of the Bank's Sections shall make a separate profit and loss statement at the end of each fiscal year and shall transfer its profits to a common pool.

After deducting all the amounts necessary for clearing up the assets and ten (10) percent of the pertinent net profits for the legal reserve fund of each Section, all realized profits shall be allotted as follows:

- To the Capital account of the Investment Loan Section: the net surplus obtained by that Section.
- To increases in Capital and Reserves of any of the Sections, and to contingency, social security and investment funds, in the proportions determined by the Board of Directors.

The above procedure is in line with the provisions of article 17 of the Bank's Charter that differ from BCRA rules CONAU – 1 which provide that 20% of the profits disclosed in the Statement of Income at the close of each year plus prior year adjustments less accumulated losses at the close of the previous year must be allocated to Legal Reserve.

Note 10 - Intercompany Transactions (General Companies Law, section 33)

The Bank's interests in its related and controlled companies are detailed below:

10.1. Interests in Equity and Non-Capitalized Contributions

Controlled Companies

Provincia Microempresas S.A. is a company created on July 27, 2009 for the purpose of identifying, selecting and pre-qualifying micro-businesses for loans. Grupo Banco Provincia S.A. and Banco de la Provincia de Buenos Aires are its shareholders.

At the Regular Meeting of Provincia Microempresas S.A. held on January 5, 2017, the shareholders resolved to increase the capital stock by $150,000. Grupo Banco Provincia S.A. has decided not to participate in such increase. Consequently, Banco de la Provincia de Buenos Aires shall make the whole contribution, thus increasing its equity holdings. Therefore, the new equity holdings of Banco de la Provincia de Buenos Aires and Grupo Banco Provincia S.A. are 99.32% and 0.68%, respectively. At December 31, 2017 and 2016, the Capital Stock of Provincia Microempresas S.A. totals $173,500 and $23,500, respectively. At the date of these Financial Statements, the capital stock is totally paid in.

On March 10, 2011, by Resolution No.312/11, BA Desarrollo S.A. (former Agencia Invierta Buenos Aires S.A.) was created to offer technical and financial assistance for investment projects aimed at fostering the productive development of the Province. Grupo Banco Provincia S.A. and Banco de la Provincia de Buenos Aires are its shareholders with a 50% share each. At December 31, 2017 and 2016, the subscribed and paid in Capital Stock amounts to $9,428 and $20,000, respectively.

Banco Provincia

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Issuing Company	Common Shares held by BPBA		Equity Interests and Votes (%)		Line of Business	Book Value Net of Allowances	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016		12/31/2017	12/31/2016
Grupo Banco Provincia S.A.	379,875	379,875	99.97	99.97	Financial Investment Transactions	1,520,372	173,609
Provincia Microempresas S.A.	172,325,000	22,325,000	99.32	95.00	Management of Microcredit	66,465	33,604
BA Desarrollo S.A.	4,714,000	10,000,000	50.00	50.00	Technical and Financial Assistance to Investors	4,760	4,714
Provincia Bursátil S.A.	640,000	640,000	4.00	4.00	Brokerage	5,452	2,235

See Note 18 to the Consolidated Financial Statements "Significant Developments regarding subsidiaries and other non-controlled companies".

Moreover, Grupo Banco Provincia S.A. has equity interests in its controlled companies as follows:

Issuing Company	Common Shares (number)	Equity Interests and Votes %	Line of Business
Provincia Seguros S.A.	53,024,289	60.00	General Insurance
Provincia Bursátil S.A.	15,200,000	95.00	Settlement and Clearing Agent and Trading Agent - Integral.
Provincia Seguros de Vida S.A.	17,425,243	60.00	Life Insurance
Provincia ART S.A.	821,400	97.09	Workers' Compensation Insurance
Provincia Leasing S.A.	139,243	99.71	Leasing
Bapro Mandatos y Negocios S.A.	15,132,432	100.00	Business Promotion, Management and Representation
Bapro Medios de Pago S.A.	38,126,757	97.00	Means of Payment and/or Credit and Systems Management

10.2 Closing Balances of Transactions with Related and Controlled Companies

ITEM	12/31/2017	12/31/2016
Assets	**482,126**	**239,024**
Loans	480,703	238,185
Other Receivables from Financial Brokerage	1,423	839
Liabilities	**2,237,398**	**576,339**
Deposits	2,237,398	576,339

Banco Provincia

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(In thousands of pesos)

10.3 Income/(Loss) from Transactions with Controlled and Related Companies

ITEM	12/31/2017	12/31/2016
Financial Income/(loss)	**(39,005)**	**(83,080)**
Income	88,216	81,714
Expenditure	(127,221)	(164,794)
Income/(loss) from Services	**(18,984)**	**(195,748)**
Income	436,906	205,956
Expenditure	(455,890)	(401,704)
Miscellaneous Income	**1,236,026**	**5,260**
Income/(Loss) on investments	1,228,914	-
Other	7,112	5,260
Miscellaneous Losses	**-**	**(129,803)**
Income/(Loss) on investments	-	(129,803)
Administrative Expenses	**(169,323)**	**(107,938)**
Total	**1,008,714**	**(511,309)**

Note 11 - Deposit Guarantee Insurance

According to the provisions of article 14 of the Bank's Charter, the Province of Buenos Aires guarantees all deposits placed with, and all bonds and other securities issued by, Banco de la Provincia de Buenos Aires. Therefore, and due to its special legal status, as mentioned in Note 1 to these Financial Statements, the Bank is not included within the Deposit Guarantee Insurance System established by Law No. 24485 and regulated by National Executive Orders Nos. 540/95 and 1292/96.

However, in order to contribute –together with the rest of the Financial System– to the above protection mechanism, the Bank has decided its voluntary and temporary inclusion since 1997 in the Deposit Guarantee Insurance System for Private Sector deposits.

This decision was informed to Seguros de Depósitos S.A. and the Argentine Central Bank.

Note 12 - Fiduciary Activities

By Resolution No. 207 dated February 1, 2001, the Board of Directors approved the wording of the trust agreement under the terms of Provincial Law No. 12511 to be entered into by the Bank, as trustee, the Ministry of Public Works and Services of the Province of Buenos Aires, as enforcement authority of the liens created by Decree Laws Nos. 7290/67 and 9038/78 and Law No. 8474, the Province of Buenos Aires Housing Institute (Instituto Provincial de la Vivienda), as the entity in charge of collecting the proceeds from the National Housing Fund (Fondo Nacional de la Vivienda), and the Board of Directors of the Trust Fund for the Development of the Provincial Infrastructure Plan (*Fondo Fiduciario para el Desarrollo del Plan de Infraestructura Provincial*) whereby the Province of Buenos Aires acts as trustor. The Bank signed the agreement on February 26, 2001. The purpose of the trust is to act as guarantor and/or payor of the works carried out under Law No. 12511. At December 31, 2017 and 2016, total Assets held in trust amounted to $3,213,410 and $1,549,307, respectively.

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On February 28, 2007, the Bank, in its capacity as trustee, and the Social Security Fund for Surveyors, Architects, Engineers and Technicians of the Province of Buenos Aires (Caja de Previsión Social para Agrimensores, Arquitectos, Ingenieros y Técnicos de la Provincia de Buenos Aires), in its capacity as trustor and beneficiary, agreed on the creation of a trust for the administration of the funds corresponding to the capitalization system, according to the provisions of section 64 of Law No. 12490. At December 31, 2017 and 2016, total assets held in trust by the Bank amounted to $4,242,224 and $2,355,624, respectively.

By Resolution No. 177/13 dated February 21, 2013, the Board of Directors approved the trust agreement of the Province of Buenos Aires Trust Fund for Transport Infrastructure System, to be subscribed between the Bank, as trustee, and the Ministry of Infrastructure of the Province of Buenos Ares, as trustor. The purpose of the agreement is to finance, according to the method instructed by the Executive Branch, plans and projects destined to the construction of roads of the main and secondary road networks of the Province of Buenos Aires, as well as those works and actions to maintain them. At December 31, 2017 and 2016, total assets held in trust by the Bank amounted to $1,105,819 and $503,983, respectively.

By Resolution No. 60/14 dated January 16, 2014, the Board of Directors created the "Financing and Technical Assistance System for Housing Improvement". This trust fund aimed at providing financing to low-income families with housing deficit, which do not qualify for loans due to their low income or lack of guarantees. At December 31, 2017 and 2016, total assets held in trust by the Bank amounted to $203,934 and $299,110, respectively.

Note 13 - Issue of Negotiable Bonds

Under the Global Program of Short, Medium and Long Term Debt Securities, the Bank issued Debt Securities in pesos for a maximum outstanding nominal value of US$200,000 or its equivalent in pesos or other currencies.

On November 8, 2016, the Bank issued Class I and Class II Debt Securities in pesos for $127,100 and $283,333, at 18 and 36-month terms, with maturity dates on May 8, 2018 and November 8, 2019, respectively. Interest will be paid on a quarterly basis, at a variable nominal annual rate of BADLAR plus 2.5% and 3.5%, respectively and the principal amount will be paid upon maturity in a single bullet payment.

On April 19, 2017, the Bank launched a second debt issue of Class III, Class IV and Class V Debt Securities for $178,495, $285,714 and $1,032,331 (UVA (Acquisition Value Unit) 56,815), at 18, 48 and 36-month terms, with maturity dates on October 19, 2018, April 19, 2021 and April 19, 2020, respectively, repayable upon maturity in a single bullet payment. Interests on Class III and Class IV securities will be paid on a quarterly basis at a variable nominal annual rate of BADLAR plus 2.25% and 3.00%, respectively. Class V Debt Securities were issued in UVA units at a rate of $/UVA 18.17 and interest will accrue on a quarterly basis at a fixed 2.50% rate.

On November 29, 2017, the Global Program of Short, Medium and Long Term Debt Securities was increased to a maximum outstanding nominal amount of US$1,000,000, or its equivalent in pesos or other currencies, and a third debt issuance was completed.

On November 1, 2017, Class VI and Class VII Debt Securities were issued for $2,070,165 and $393,400 at 24 and 36-month terms, respectively. They will be repayable upon maturity and interest will accrue on a quarterly basis at a variable rate. Class VI Securities were issued at the new TM20 rate (interest rate on time deposits for 20 million pesos/dollars or higher) plus 3.25%, while Class VII Securities were issued at the Monetary Policy rate.

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KPMG

(Partner)

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At year-end, the Bank has the following outstanding Debt Securities issues:

Issue Date	Currency	Class No.	Amount	Term (months)	Maturity Date	Rate	Book Value(1) in thousands of pesos	
							12/31/2017	12/31/2016
11/8/2016	Pesos	I	127,100	18	5/8/2018	Badlar + 2.50%	127,100	127,100
11/8/2016	Pesos	II	283,333	36	11/8/2019	Badlar + 3.50%	283,333	283,333
4/19/2017	Pesos	III	178,495	18	10/19/2018	Badlar + 2.25%	178,495	-
4/19/2017	Pesos	IV	285,714	48	4/19/2021	Badlar + 3.00%	285,714	-
4/19/2017	Pesos	V (2)	1,032,331	36	4/19/2020	Fixed 2.50%	1,032,331	-
11/1/2017	Pesos	VI	2,070,165	24	11/1/2019	TM20 + 3.25%	2,070,165	-
11/1/2017	Pesos	VII	393,400	36	11/1/2020	Monetary Policy	393,400	-

(1) Principal amount due and payable
(2) denominated in UVAs - 56,815

At December 31, 2017, interest accrued by the three issues totaled $154,698, as against $13,683 for the first issue at December 31, 2016.

At December 31, 2017, a capital adjustment for $165,332 was recorded for Class V Debt Securities.

Note 14 –Derivative Instruments

- Forward transactions with delivery of the underlying asset

At December 31, 2017 and 2016, the Bank recorded $11,384,846 and $7,560,654, respectively, accounting for swap transactions valued as stated in Notes 2.5 and 2.6.

Moreover, at December 31, 2017 and 2016, the Bank recorded $93,744 and $71,640, respectively on account of forward transactions for foreign currency hedging at the Sao Paulo branch.

At December 31, 2017 and 2016, the Bank recorded $200,110 and $145,168, respectively under the "Government Securities booked at Cost plus Yield" caption at the Sao Paulo branch.

- Forward transactions without delivery of the underlying asset

At December 31, 2017, the Bank recorded $119,280 under the "Memorandum Debit Accounts – Derivatives" caption representing foreign currency forward purchases without delivery of the underlying asset.

At December 31, 2017, the Bank recorded $119,280 under the "Memorandum Credit Accounts – Derivatives" caption representing foreign currency forward sales without delivery of the underlying asset.

Note 15 - Compliance with the requirements of the Argentine Securities Commission

The Capital Markets Law No. 26831, enacted on December 27, 2012, provides for an integral reform of the public offering regime implemented through Law No. 17811.

This law refers to certain matters affecting business activities such as the increase of the National Government's regulatory powers on public offering to be exercised through the Argentine Securities Commission, which shall have authorization, supervision and control powers as well as disciplinary jurisdiction and shall set rules to govern all capital market players. Moreover, it is no longer required to be a shareholder to trade in the market as intermediary agent, thus allowing other

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participants to enter the market and delegating on the CNV the authorization, registration and regulation of different categories of agents.
On August 1, 2013, Executive Order 1023/2013 partially regulating the Capital Markets Law was published in the Official Gazette and, on September 9, 2013, CNV General Resolution No. 622 was published in the Official Gazette approving the pertinent regulation.

Such set of rules creates a registry of agents participating in the capital market. To engage in each activity regulated thereunder, agents are required to be registered with such Registry at or before March 1, 2014.

Resolution of the Board of Directors No. 2/14 dated January 2, 2014 provided for the registration of the Bank with the Registry of Agents as Settlement and Clearing Agent and Trading Agent. The registration request was approved by the CNV on September 19, 2014 under registration number 43.

In view of the operations currently performed by the Bank and considering the different categories of agents defined in CNV General Resolution No. 622, the Bank has registered before the control authority to act as Settlement and Clearing Agent and Trading Agent - Integral.

At December 31, 2017, the Bank's net worth surpasses the minimum net worth required by said rule, which amounts to $22,500.- as well as the minimum required counterpart contribution of $10,500 that, if applicable, will be covered with assets held in accounts opened with the BCRA as follows:

BCRA	ITEM	BOOK BALANCE	BALANCE AS PER STATEMENT
111015	BCRA: Checking Account	21,394,800	21,396,687
115015	BCRA: Checking Account	25,208,831	25,209,235

The Bank is also the depositary institution of the following Mutual Funds, the net assets of which at December 31, 2017 and 2016 are detailed below:

	12/31/2017	12/31/2016
1822-Raíces Valores Negociables	795,399	228,368
1822-Raíces Renta Pesos	229,304	65,046
1822-Raíces Renta Global	1,679,127	58,855
1822-Raíces Pesos Fondo Común de Dinero	2,746,860	2,408,212
Provincia Dólares Fondo Común de Dinero	-	301
1822- Raíces Inversión	5,469,691	2,665,106
1822 Raíces Valores Fiduciarios	704,139	623,719

These Mutual Funds are recorded by the Bank in the "Memorandum Accounts - Items in Safekeeping" caption.

Note 16 - Regularization and Reorganization Plans

On March 4, 2011, the BCRA issued Resolution No. 92 restating the Regularization and Reorganization Plan according to the provisions of section 34 of the Law of Financial Institutions and granting new facilities and exemptions since those approved under Resolution No. 81 dated March 28, 2001 could never be implemented or became inappropriate due to the events subsequent to that date.

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The exemptions and facilities contained in the Resolution relate to prudential regulations on minimum capital requirements, exemptions on frozen assets, credit risk diversification (including limits on Public Sector Financing), setting up of minimum cash requirements for judicial deposits, valuation of guaranteed bonds at their technical value till maturity, agreement for provincial bonds to be valued at their listed price at September 30, 2010 plus accrual at the internal rate of return. The BCRA also requested the Bank to submit, within 180 days after being notified, a proposal stating a deadline for adjusting interests in related companies in accordance with the regulations in force.

As previously mentioned and in order to ease the fulfillment of the Regularization and Reorganization Plan, Resolution No. 92/11 provided for certain facilities and exemptions approved by the BCRA. It also stated that in case of significant diversions affecting the estimated projections or in case of events preventing the Bank from complying with the expected technical ratios, the Bank should submit a new proposal to solve such diversions. Should such measures not be enough to correct them within the stipulated period, the whole plan would be deemed unfulfilled.

As required in paragraph 3 of the above mentioned Resolution, as of September 1, 2011, the Bank began to send quarterly reports to the BCRA covering the periods ranging between September 30, 2011/June 30, 2012. On September 1, 2011 the Bank also submitted a letter addressing its compliance with the provisions set forth in paragraph 9 and informing that it was analyzing the projections of the related companies detailed in such Resolution and that the Province of Buenos Aires' authorities had not yet taken a decision regarding the transfer of ownership of Provincia ART. Likewise, on August 31, 2011, the BCRA received the report required in paragraph 8 of the mentioned Resolution.

According to BCRA's Communication "A" 5272, on September 29, 2012, Banco Provincia submitted its 2012-2014 Business Plan to the Argentine Central Bank. On October 31, 2012, the Bank requested the BCRA's approval to submit in mid-December 2012 the restatement of projections included in the Regularization and Reorganization Plan based on the Province of Buenos Aires' financial needs stated in the 2013 Budget.

On November 9, 2012, the BCRA issued Communication "A" 5369 (in force as of January 1, 2013) significantly modifying the regulations on minimum capital requirements and integration for Financial Institutions and the risk-weight table. Taking into account the option specified in Basel II rules that allows mitigating the weighting of exposure to the public sector, it was decided that such exposures, whether direct or through a trust, denominated or funded in pesos, will be weighted at 0%. Foreign currency-denominated loans to the public sector will continue being weighted at 100%. Likewise, loans to individuals and micro and small and medium enterprises, as well as mortgage loans for the purchase of sole family houses would be weighted at 75% and 35%, respectively, subject to certain conditions. Under the new rule, the weighting factors were reduced when compared to those in force (100% and 50%, respectively).

It also includes supplementary amendments for determining the Adjusted Net Worth, in force as of February 1, 2013.

At the same time, BCRA's rules on minimum capital requirements for interest rate risk became ineffective, but financial institutions shall continue managing this risk.

On January 10, 2013, the Bank's Board of Directors approved the 2013-2018 Strategic Plan including these changes. This plan was submitted to the BCRA on January 15, 2013 to redefine the Compliance Schedule, which had been originally approved by Resolution No. 92 of the control authority dated March 04, 2011. The Bank requested the maintenance of certain exemptions contemplated in such Resolution, the granting of additional exemptions and the extension of the terms therein contemplated in case of the Bank's failure to meet the Minimum Capital Requirements until the earlier of December, 2018 or the date of final compliance. As a result of the events occurred mainly in the city of La Plata and of certain adjustments and/or clarifications that had to be made according to meetings held with the BCRA, on April 30, 2013, the Bank delivered a note to the regulatory body requesting authorization to redefine its 2013-2018 Strategic Plan in view of the existing situation and suggesting its presentation by May 31, 2013. Provisional figures at such date were submitted for BCRA's analysis.

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At December 31, 2013, the Bank was unable to comply with the commitments undertaken under Resolution No. 92/11. In order to complement the actions already taken, on January 27, 2014, the Bank submitted a note requesting the BCRA to maintain such exemptions in full force and effect until resolution of the existing situation. That would help assessing the impact of the regulatory and legal changes on both the Bank's Charter and the Fiscal Responsibility Act's requirements and moving forward with the measures taken in 2013.

On June 26 and July 22, 2014, the Bank submitted to the BCRA its 2014-2018 Compliance Schedule. Its main purpose is to achieve the Bank's 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 issued by the Superintendency of Financial and Exchange Institutions of the Argentine Central Bank *(Superintendencia de Entidades Financieras y Cambiarias – SEFyC)* on March 4, 2011. The Bank also requested additional exemptions related to advances made to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel, Bond received pursuant to the Debt Consolidation Agreement between the Bank and the Province of Buenos Aires (Executive Orders Nos. 2094/12 and 2190/12), Unified Fund of Official Accounts, General Exchange Position, financial assistance to provincial municipalities, minimum capital requirement for interest rate risk, minimum capital ratio, calculation of loans for productive investment and licensing of service units.

On December 18, 2014 and August 4, 2015, the Bank submitted to the BCRA 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, and other additional exemptions applied by the Bank contained in its 2014-2018 Compliance Schedule.

On September 28, 2015, the Bank sent a letter to the BCRA requesting an 18-month extension to submit a proposal addressing the adjustment of its interests in related companies in line with the regulations in force. It also requested an exemption to compute the criterion adopted by Provincia A.R.T. S.A. to differ the charge against income for the increase in the balance of liabilities derived from losses related to judicial claims and mediations arising from the application of section 1 of SSN Resolution No. 39214, as stated in Note 2.g to the Consolidated Financial Statements.

On March 16, 2016, the Bank sent a letter to the BCRA requesting an extension for submitting a new Compliance Schedule until obtaining reliable information on when and how the Province of Buenos Aires will cancel the debt held with the Bank, since this shall significantly impact on the Bank's financial position and its prudential ratios. Such information will enable the Bank to submit a Compliance Schedule with the adequate certainty level.

On July 18, 2016, the Bank sent to the BCRA a letter requesting an additional period to submit a new schedule and the maintenance of certain exemptions duly granted by Resolution No. 92/11 until the issue of the debt held by the Province of Buenos Aires with the Bank be dealt with at Parliament.

Therefore, by letter dated January 10, 2017, the BCRA requested to be informed about the advances on the mentioned Schedule's restatement and the estimated submission date.

On March 10, 2017, Banco Provincia answered the Central Bank's Letter dated January 10, 2017. The Bank informed the BCRA about the receipt of bonds for $7,374,348 for the settlement of advances made by the Bank to the Retirement and Pension Fund during 2015 and 2016. It also gave information on the design of a new bond for the settlement of advances to the Retirement and Pension Fund made during the 2012-2014 period. Therefore, 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 these Financial Statements, no reply has been received from the BCRA regarding the above requests.

Guaranteed Bonds-Executive Order No. 1579/02 (Bogar 2018) (see Note 2.18) have been valued, and these Financial Statements have been prepared, taking into account the exemptions and facilities granted by the BCRA pursuant to

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Resolution No. 92/11 and other requests described above. 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. 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 these Financial Statements, the Bank is drafting the reply to the remaining remarks.

Note 17. Publication of Financial Statements

In accordance with the provisions of Communication "A" 760, the BCRA's prior approval is not required to publish these Financial Statements.

Note 18. Accounts in compliance with minimum cash requirements

According to the regulations of the BCRA, Banco de la Provincia de Buenos Aires computed the following items for minimum cash requirements at December 31, 2017.

Minimum Cash – Balance at the end of the fiscal year - Pesos

Minimum Cash Requirement	12/31/2017
Credit balances in demand checking accounts opened with the BCRA	21,394,800
Credit balances in special escrow accounts opened with the BCRA	4,024,500
	25,419,300

Minimum Cash – Balances at the end of the fiscal year – Foreign Currency (US Dollars)

Minimum Cash Requirement	12/31/2017
Credit balances in demand checking accounts opened with the BCRA	25,208,831
Credit balances in special escrow accounts opened with the BCRA	167,082
	25,375,913

Note 19.

Note 19 - Reconciliation of balances with the accounting framework for convergence with IFRS

On February 12, 2014, the BCRA issued Communication "A" 5541 establishing the guidelines for convergence to the International Financial Reporting Standards (IFRS), aimed at the preparation of the financial statements issued by all institutions governed by the Law of Financial Institutions for the fiscal years beginning on or after January 1, 2018. Such communication provides that, during the April 1, 2014/December 31, 2017 period, the BCRA will announce the adjustments to the Regulations and Reporting Regime that are necessary for IFRS convergence. The control authority, through the Superintendence of Financial and Foreign Exchange Institutions, will also monitor the progress of the convergence plans already submitted.

The BCRA, through Communication "A" 5635, imposed a roadmap and defined the content and formalities to be observed by the IFRS Implementation Plan that was supposed to be presented before March 31, 2015.

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As required by Communication "A" 5541, the Bank's IFRS implementation plan is currently under way. Hence, by Resolutions Nos. 1507/14 dated November 20, 2014 and 271/15 dated February 26, 2015, the Board of Directors was informed about the roadmap for IFRS convergence, and approved the creation and organization of the team that would be entrusted with the implementation plan.

On March 27, 2015, the Bank submitted to the BCRA the IFRS Convergence Plan approved by Resolution of its Board of Directors No. 412/15 dated March 26, 2015.

On September 29, 2015, the Bank submitted an update to the mentioned plan approved by Resolution of the Board of Directors No. 1244/15 issued on September 17, 2015.

Through Communication "A" 5844, the BCRA established the steps to be taken by financial institutions in order to reconcile their assets/liabilities with those resulting from the application of the IFRS. Such Communication calls for a first reporting of balances at December 31, 2015, maturing on March 31, 2016. The Bank has complied with such requirement. Subsequently, such reconciliation will include balances at June 30, 2016 and December 31, 2016, maturing on September 30, 2016 and March 31, 2017, respectively. Therefore, the Bank has prepared and submitted -within the term provided by the regulations in force- the reconciliation of assets/liabilities resulting from the application of the IFRS at June 2016, together with the updated Convergence Plan. Both documents have been approved by Resolution of the Board of Directors No. 1141/16 dated September 28, 2016, thus complying with the provisions of the BCRA.

Likewise, Communication "B" 11372 provides clarifications on the above-mentioned Communication.

Communication "A" 6114 announces the criteria to be adopted by the Bank within the framework of IFRS convergence.

Through Resolution No. 1564/16 dated December 29, 2016, the Board of Directors was informed of the IFRS Convergence Committee's minutes for the 2016 August/November period.

On March 28, 2017, the Board of Directors, by Resolution No. 382/17, approved the reconciliation of assets and liabilities based on the IFRS at December 2016.

Through Resolution No. 567/17 dated May 11, 2017, the Board of Directors was informed of the IFRS Convergence Committee's minutes for the 2016 December/2017 March period.

By Resolution No. 1189/17, the Bank's Board of Directors approved the reconciliation of assets and liabilities based on the IFRS and the notes at June 30, 2017.

Through Resolution No. 1190/17, the Board of Directors was informed of the IFRS Convergence Committee's minutes for the 2017 May/August period.

Through Resolution No. 1471/17, the Board of Directors was informed of the IFRS Convergence Committee's minutes for the 2017 September/October period.

BCRA's Communication "A" 6206 introduced changes to the Accounting Reporting Regime for Interim/Annual Publication. Thus, the submission of the IFRS Implementation Plan and its pertinent Internal Auditors' Special Report was no longer in effect.

The Bank is in the process of converging towards the IFRS. Such process will be effective for the Financial Statements corresponding to the accounting periods beginning on or after January 1, 2018. Therefore, January 1, 2017 has been set as the transition date for IFRS convergence.

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By Communication "A" 6323, the BCRA defined the minimum chart of accounts and the provisions to be applied in the registration of transactions and equity variations and in the presentation of the financial statements for fiscal years beginning January 1, 2018. The Communication also stipulated that the provisions of the Accounting Manual ceased to be applicable as from such date.

By Communication "A" 6324, the BCRA announced the changes introduced by application of the IFRS to the Accounting Reporting Regime for Interim/Annual Publication. Such communication contains the standards applicable to the preparation and presentation of the financial statements for fiscal years beginning on or after January 1, 2018, date on which financial institutions are required by Communication "A" 6114 to apply the IFRS-based accounting framework.

The Bank is now making the pertinent adjustments to its own systems and processes in order to comply with the IFRS defined by the BCRA. Therefore, the items and figures contained in the reconciliation included in this note may change and may only be deemed final when annual consolidated financial statements for fiscal 2018 are prepared applying the IFRS for the first time, within the scope defined by the BCRA in its Communication "A" 5541 and supplementary regulations. They constitute, in whole, the IFRS adopted by the BCRA, which differ from the IFRS in that they include the provisional exception from the application of section 5.5 "Impairment" under IFRS 9.

19.1 First-time adoption

IFRS 1 (First-time Adoption of International Financial Reporting Standards) sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general-purpose financial statements.

Such IFRS will be applied by an entity in:

a) its first financial statements under the IFRS; and
b) each interim financial statement corresponding to part of the period covered by its first financial statements prepared under the IFRS.

According to Communication "A" 5844, IFRS 1 shall not be considered when calculating the adjustments applicable to reconciliations already presented, unless specifically indicated by the BCRA.

IFRS 1 includes mandatory and optional exceptions, at transition date, to the principle of retrospective application of current IFRS for financial statements ended at December 31, 2018. Such exceptions have been granted by the International Accounting Standards Board (IASB) to simplify the first-time adoption of such standards.

The Bank and Grupo Banco Provincia S.A. used the following exceptions under IFRS 1:

1. **Deemed cost of Property and Equipment and Investment Property**: the fair value of real property and investment property has been adopted as the deemed cost at transition date to IFRS. For the remaining goods, the accounting value at transition date is adopted as the deemed cost including, if appropriate, any inflation adjustment.

2. **Cumulative translation differences arising from foreign businesses**: the cumulative translation differences in respect of all foreign businesses have been deemed to be nil on the date of transition to IFRS.

3. **Fair value measurement of financial assets or financial liabilities at initial recognition**: certain instrument were measured at their fair value at transition date and not at their initial recognition date, as permitted by the pertinent exception.

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4. **Capitalization of interest**: the Bank and Grupo Banco Provincia S.A. will apply IAS 23 prospectively as from the transition date.

5. The Bank and Grupo Banco Provincia S.A. have not applied the other exceptions permitted by IFRS 1.

19.1.1. IFRS mandatory exceptions

The IFRS 1 mandatory exceptions applicable to the Bank and Grupo Banco Provincia S.A. are set out below:

1. Estimates: estimates under IFRS at the transition date are consistent with estimates made at the same date under BCRA accounting standards.
2. Classification and measurement of financial assets: the Bank has considered the facts and circumstances existing at transition date to determine whether the financial assets comply with the requirements to be classified as an asset measured at amortized cost or at fair value with changes in other comprehensive income.

19.2 Relevant Accounting Policies

19.2.1 Initial recognition and classification of financial instruments

As of January 1, 2018, the requirements of IFRS 9 (former IAS 39) are applicable for the recognition and measurement of financial instruments. Though the IFRS is effective for periods beginning on January 1, 2018, it can be used prior to such date for reconciliation under IFRS and in transitional financial statements, as stated in the Routemap for conversion purposes.

The financial instruments are initially recognized at their fair value. When a financial instrument accrues below-market interest, its fair value is determined through the present value method, whereby cash flows are discounted at a market rate. Thus, a lower value for the financial instrument is initially recognized and recorded as a loss in the current fiscal year. Such loss will be recovered throughout the life of the financial asset.

According to IFRS 9, financial assets are measured at amortized cost and fair value.

When assets are measured at fair value, profits and losses are fully recognized as profits or losses (changes in fair value through profit or loss (FVTPL)) or they are recognized as other comprehensive income (changes in fair value through other comprehensive income (FVTOCI)).

The debt instrument is measured at amortized cost when:

1) it is held within a business model whose objective is to hold the financial asset to collect contractual cash flows and;

2) the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortized cost is determined by applying the effective interest rate method that includes fees and charges directly related to the financial asset.

The debt instrument is measured at fair value with changes in OCI (Other Comprehensive Income) when:

1) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
2) the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Changes in fair values shall be recorded under Other Comprehensive Income, except for the recognition of loss of value, interest accrued and exchange differences, which must be recognized in the statement of income. When an instrument is derecognized, the profit or loss previously accumulated under OCI shall be reclassified and transferred from net worth to statement of income.

All other debt instruments are measured at fair value with changes in profits or losses (FVTPL).

The Bank is assessing the cash flows characteristics of its financial assets in order to determine if they meet the "solely payment of principal and interest" criteria.

Government and Corporate Securities

The Bank and Grupo Banco Provincia S.A. hold assets within different business models:

- For trading: these securities are measured at fair value with changes in profits or losses
- For collecting contractual cash flows: these securities are measured at amortized cost
- For collecting and selling contractual cash flows: these securities are measured at fair value with changes in OCI

Loans and receivables from financial leases

According to the Bank's business model, the financial assets included under these captions are managed to collect contractual cash flows throughout the life of the instrument. Such financial assets shall be measured at amortized cost as long as they meet the "solely payment of principal and interest" criteria.

Other receivables from financial brokerage

The Bank and Grupo Banco Provincia S.A. hold assets within different business models:

- For collecting the contractual cash flows: these securities are measured at amortized cost
- For collecting and selling contractual cash flows: these securities are measured at fair value with changes in OCI

Financial instruments are measured at fair value with changes in profits or losses.

Financial liabilities

Two classification and measurement categories:

i. FVTPL - fair value with changes in profits or losses

ii. Amortized cost

Financial liabilities are valued at amortized cost by applying the effective interest rate method.

Derivative financial instruments are measured at fair value with changes in profits or losses.

19.2.2 Derecognition of financial assets and liabilities

If a transfer does not result in derecognition of the transferred asset, the Bank shall continue to recognize the transferred asset in its entirety and shall recognize a financial liability for the consideration received.

If the contractual rights of the financial asset expire upon a transfer, the asset will be derecognized.

If the Bank has transferred the contractual rights to receive the cash flows and the transfer is relevant, then the asset is derecognized. On the contrary, if the Bank has retained the contractual rights and liabilities and the control over the assets, then derecognition of the asset is precluded.

19.2.3 Relationship between the Bank and other companies

The Bank and Grupo Banco Provincia S.A. are analyzing the relationships between the Bank and the companies in which it has an equity holding to determine if:

- The Bank (or any of its subsidiaries) has control over the entity. If so, consolidation is required and such equity holding shall be assessed by applying the equity method in the stand-alone information.
- The Bank (or any of its subsidiaries) has a significant influence. If so, the equity holding shall be assessed by applying the equity method.
- The Bank has no control or influence. If so, and if necessary, it shall be measured at fair value with changes in profits or losses.

19.2.4 Property, Plant and Equipment - IAS 16

According to IAS 16, the accounting policy of the Bank shall be the cost model.

As a result of the optional exception in the first-time adoption of IFRS 1, the Bank and Grupo Banco Provincia S.A. have resolved to consider the fair value of the real estate classified as Property, Plant and Equipment or Investment Properties as the deemed cost at transition date.

19.2.5 Intangible Assets - IAS 38

According to the definition included in the Standards, it shall be assessed whether intangible assets meet the required criteria:

- Identifiable
- Non-monetary
- Without physical substance

There follows the relevant recognition criteria:

- Identifiable (either being separable or arising from contractual or other legal rights)
- Control
- Probability of future economic benefits
- Reliable measurement

The Bank and Grupo Banco Provincia S.A. have adopted the cost model for intangible assets valuation.

Therefore, those intangible assets that do not meet the requirements were not recognized as an asset.

19.2.6 Personnel Benefits

IAS 19 identifies four categories of personnel benefits:

- **Short-term benefits for active employees** are those expected to be settled wholly before twelve months after the end of the annual reporting period during which employee services are rendered. They are booked at their nominal value and in line with the BCRA rules, except for unused vacations and their contributions, which, under IFRS, must be recognized at the time of accrual.

- **Benefits for retired employees** are post-employment benefits, e.g. pension and retirement benefits, life insurance and medical care. Under IFRS, these benefits are valued at their present value using the actuarial cost method. The accounting of the post-employment plans require the measurement of the liability through an actuarial valuation method. The Bank's valuation of this benefit was in line with the guidelines set forth by IFRS 19.

- **Other long-term benefits for employees** are those expected to be settled twelve months after the end of the annual reporting period during which employee services are rendered.

- **Termination benefits** are those benefits to be settled as a result of the decision to terminate an employee' employment before the regular retirement age, or the employee's decision to voluntarily accept an offer of benefits on termination

19.2.7 Provisions - IAS 37

According to IAS 37, provisions are liabilities involving uncertainty about timing or amount. A provision should be recognized if and only if, each and every one of the following three conditions are met:

- the Entity has a present (legal or constructive) obligation resulting from a past event;

- it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and

- a reliable estimate can be made of the amount of the relevant debt. The Standard states that it is only in extremely rare cases that a reliable estimate will not be possible.

The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.
In the case of provisions related to lawsuits against the Bank and Grupo Banco Provincia S.A., the probability of an outflow of funds derived from suits should be determined considering the following classification:

- Higher than 50%: provisions for the total amount to be paid (at its current value) should be recognized.

- Lower than 50%: they should be included in the Notes to the stand-alone or consolidated Financial Statements, according to their relevance.

- Remote: provisions are not set up and its disclosure is not required in the Notes to the Financial Statements.

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19.3 Reasons by caption that explain the adjustments arising from the adoption of the accounting framework for IFRS convergence

This Note describes the total adjustments made due to the adoption of IFRS. There follows a breakdown of the adjustments made at the beginning of the transition period and the end of the fiscal year 2017.

19.3.1. Government Securities

At December 31, 2017, the securities portfolio is classified according to the following detail, which includes adjustments for changes of categories and valuation under IFRS:

On a stand-alone basis

Caption	BCRA	IFRS	Adjustment
Measurement at Amortized Cost	13,675,903	5,245,231	(8,430,672)
Measurement at Fair Value	25,187,754	33,571,776	8,384,022
Repo transactions	12,823,837	-	(12,823,837)
TOTAL GOVERNMENT AND CORPORATE SECURITIES	**51,687,494**	**38,817,007**	**(12,870,487)**

On a consolidated basis

Caption	BCRA	IFRS	Adjustment
Measurement at Amortized Cost	21,690,359	17,179,605	(4,510,754)
Measurement at Fair Value	36,178,388	40,376,374	4,197,986
Repo transactions	12,823,837	-	(12,823,837)
TOTAL GOVERNMENT AND CORPORATE SECURITIES	**70,692,584**	**57,555,979**	**(13,136,605)**

Derecognised report transactions amounted to $12,823,837 (both on stand-alone and consolidated basis).

The adjustment for the quarter was recognised in the stand-alone results for $(999,170) and in OCI for $314,280.

At transition date, adjustments were calculated at $(326,861) and $(326,791), either on a stand-alone and consolidated basis, respectively, and were recorded under Other Comprehensive Income.

19.3.2. Loans

At December 31, 2017, the Bank is assessing the characteristics of its loan portfolio in order to determine if the solely payments of principal and interest criterion is met, and if loans bear interest at market rates.

Amounts receivable in installments from VISA and MasterCard credit cards, under "Ahora 12" and "Ahora 18" programs, are considered to be calculated at a regulated rate. The Bank is analyzing the best alternative to calculate the current value of the remaining amounts receivable from interest free credit cards financings.
Total adjustments are detailed below:

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(Partner)

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			Taxpayer registration code: 20-12400104-9

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On a stand-alone basis

Caption	BCRA	IFRS	Adjustment
Measurement at Amortized Cost	165,632,268	164,151,206	(1,481,062)
Total Loans	**165,632,268**	**164,151,206**	**(1,481,062)**

On a consolidated basis

Caption	BCRA	IFRS	Adjustment
Measurement at Amortized Cost	165,183,311	163,702,249	(1,481,062)
Total Loans	**165,183,311**	**163,702,249**	**(1,481,062)**

19.3.3 Other Receivables from Financial Brokerage

Under the Bank's business model, the financial assets included in this caption are managed to collect contractual cash flows throughout the life of the instrument, except for Bogar 2018, which has been measured at fair value.

The quarterly accumulated adjustment to results corresponding to the financial instrument amounted to $388.

19.3.4 Bonds to be received from the PBA, outstanding balances for subsidized rates (account 141154)

Bonds to be received from the Province of Buenos Aires (PBA) on account of debt consolidation for $7,464,153. At the date of these Financial Statements, the issuance terms and conditions of these instruments have not been determined yet; thus they are measured at their nominal value, resulting in an adjustment of $858,998.-

19.3.5. Interests in Other Companies

Non-controlling interests in other companies

The adjustment to reflect interests in Bladex at their fair value amounted to $295,900 in the stand-alone financial statements. On a consolidated basis, the adjustment totaled $237,337 for the change to fair value of Mercado de Valores de Buenos Aires' and Bolsas y Mercados Argentinos S.A.'s shares. The checking of the list of Red Link S.A.'s and Prisma S.A.'s Directors proved that some members are linked to the Bank. These interests have been valued according to the equity method, taking into account the Bank's significant influence on the companies, in line with IAS 28. The adjustment amounted to $126,480.

To the extent permitted by IFRS 9, paragraph B5.4.14, the remaining minority interests have been measured at their cost value, since the determination of their fair value is not possible.

Controlling interests in other companies

In the stand-alone financial statements, the Bank has applied the equity method to value its controlling long-term investments, which resulted in an adjustment of $1,071,340.

19.3.6. Miscellaneous Receivables

Advances to the Retirement and Pension Fund

The Miscellaneous Receivables caption includes the advances to the Retirement and Pension Fund for $5,306,810. As these

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balances do not have a contractual flow, they are stated at their nominal value, reversing $585,954 from the pertinent adjustment account.

Personal Loans to Employees

The adjustment corresponding to loans granted to the Bank's employees, classified at amortized cost and included in the Miscellaneous Receivables caption amounts to $(444). These loans were measured at fair value at their initial recognition date.

Income Tax

IAS 12 provides for the application of the deferred tax method for income tax recognition (a method not applicable under BCRA rules).

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Assets and liabilities are measured at the tax rate that is expected to be applied on taxable income in the years in which those differences are recovered or settled. The measurement of deferred assets and liabilities reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the amounts of its assets and liabilities.

Deferred assets and liabilities are recognized without taking into account the timing of the reversal of temporary differences. Deferred assets are recognized to the extent that it is probable that future taxable profits will be available against which they can be used.

The Montevideo branch has made an adjustment for $2,810 under "Deferred Tax Asset".

Grupo Banco Provincia S.A.'s companies have made the following adjustments on account of deferred tax assets:

Company	Adjustment
Grupo Provincia	(2,859)
Provincia Seguros	1,626
Provincia Net	(527)
Bapro Mandatos y Negocios	(1,691)
Total	**(3,451)**

19.3.7 Bank Premises and Equipment and Miscellaneous Assets

For the preparation of these Financial Statements, all real property of the Bank and its branches has been fairly measured. To that end, the Bank has finished the asset valuation as required in Communication "A" 5844, paragraph 2.1.4. Mention should be made that during the last quarter of the current year, the real property located in Grand Cayman has been reclassified from Bank Premises and Equipment to Miscellaneous Assets, considering its original value as deemed cost. Depreciation was determined based on fair values and charged to the Statement of Income, thus causing an adjustment of $(61,907) on a standalone basis and of $(63,038) on a consolidated basis.

Other assets for $4,378 were derecognized on a consolidated basis.

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19.3.8 Intangible Assets

The intangible assets of the Bank and its branches not complying with the requirements of IAS 38 to be recognized as an asset amounted to $43,546, representing a $4,481 positive variation in the quarter.

With respect to rentals paid by the Bank, a $37,726 adjustment with a contra entry in the Miscellaneous Liabilities account mentioned in paragraph 19.3.10 was considered in the reconciliation of balances with the accounting framework towards NIIF convergence.

19.3.9 Financial Instruments - Liabilities

Other Liabilities from Financial Brokerage

- Repo Transactions

As shown in “Securities”, the book balance for $12,823,837 in relation to monetary regulation instruments received for repo transactions and to forward sales for these transactions was derecognized.

19.3.10 Miscellaneous Liabilities

Payroll and Social Security Taxes - Benefits paid to personnel

- Benefits paid to personnel in the short term

The recognition of unused vacations and their contributions as of December 31, 2017 results in greater liabilities for $2,753,429. This adjustment does not take into account the effect of the Income Tax, which is paid by the Bank.

The adjustment for early retirements amounts to $97,542.

Income Tax

With respect to Tax Debts items of Grupo Banco Provincia S.A.’s companies, the adjustments to the deferred tax derived from the application of IAS 12 were determined for this reconciliation.

Company	Adjustment
Provincia ART	513,180
Provincia Bursátil	83,298
Provincia Leasing	(11,161)
Bapro Mandatos y Negocios	1,499
Provincia Vida	(132)
Provincia Net	55
Provincia Seguros	(233,220)
Total	**353,519**

Insurance companies reserves

Some companies of the group have started to perform the liability adequacy test required by the IFRS 4, thus producing a $(1,278,878) adjustment.

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However, such liability adequacy test was not completed in all insurance companies of Grupo Banco Provincia S.A.

Guarantees Granted

The Bank is analyzing and assessing the total impact of the regulation. The adjustment of the most significant guarantees granted was included in this reconciliation. For the valuation of liabilities at amortized cost the collected commissions accrued during the effective term of the guarantee and the commissions payable as of December 31, 2017 for the agreement currently in force were considered. For calculating the measurement of the asset arising from such guarantees, commissions pending collection under current agreements were taken into account. In this sense, the adjustment was $5,864 for liabilities and $6,996 for assets.

19.3.11 Provisions

Determination of provisions in accordance with IAS 37, resulted in a $200 reversal on a consolidated basis.

- Benefits paid to personnel after employment

Recognition of retirement benefits as of December 31, 2017 derives in a higher liability for $ 1,344,924.

The Montevideo branch has made a $143 adjustment under this caption.

19.3.12 Conversion Differences

The adjustment accumulated as of December, 2017 corresponding to the conversion difference shown in OCI amounts to $80,278.

19.4 Reconciliation of balances with the accounting framework for IFRS convergence.

Balance Sheet

Captions	BCRA	IFRS Adjustment	IFRS Balance
ASSETS	**307,359,570**	**(2,634,601)**	**304,724,969**
Cash and Due from Banks	55,977,199	-	55,977,199
Government and Corporate Securities	51,687,494	(12,870,487)	38,817,007
Loans	165,632,268	(1,481,062)	164,151,206
Other Receivables from Financial Brokerage	25,098,658	858,311	25,956,969
Receivables from Financial Leases	60,722	-	60,722
Interests in Other Companies	1,760,411	1,496,021	3,256,432
Miscellaneous Receivables	5,068,556	594,184	5,662,740
Bank Premises and Equipment	1,651,103	8,794,909	10,446,012
Miscellaneous Assets	198,011	(20,657)	177,354
Intangible Assets	170,555	(5,820)	164,735
Items Pending Allocation	54,593	-	54,593
LIABILITIES	**288,262,418**	**(8,583,077)**	**279,679,341**
Deposits	260,014,727	-	260,014,727
Other Liabilities from Financial Brokerage	25,756,306	(12,823,837)	12,932,469

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Miscellaneous Liabilities	1,382,032	2,895,693	4,277,725
Provisions	1,017,724	1,345,067	2,362,791
Items Pending Allocation	91,629	-	91,629

Statement of Income

Captions	BCRA	IFRS Adjustment	IFRS Balance
NET INCOME FOR THE YEAR	**6,961,874**	**1,506,563**	**8,468,437**
Financial Income	37,893,268	(676,087)	37,217,181
Financial Expenditure	(15,365,843)	(31,916)	(15,397,759)
Provision for Loan Losses	(2,120,241)	-	(2,120,241)
Income from Services	9,358,515	(375,147)	8,983,368
Expenditure for Services	(5,346,971)	-	(5,346,971)
Administrative Expenses	(18,368,165)	2,215,352	(16,152,813)
Other	911,311	374,200	1,285,511
Income Tax	-	161	161
OTHER COMPREHENSIVE INCOME	**-**	**422,524**	**422,524**
Exchange Differences for Conversion of Financial Statements	-	80,278	80,278
Profit or Loss for Financial Instruments at Fair Value with Changes in OCI (Paragraphs 5.7.5 and 4.1.2A of IFRS 9)	-	342,246	342,246
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**6,961,874,**	**1,929,087**	**8,890,961**

Total Comprehensive Income attributable to:	**8,890,961**
Total Comprehensive Income Attributable to the Owners of the Controlling Company	8,890,961

Statement of Changes in Net Worth

Captions	BCRA	IFRS adjustment - 1st time	IFRS adjustment	IFRS balance
NW attributable to the owners of the controlling company	**19,097,152,**	**4,019,389**	**1,929,087**	**25,045,628**
Capital, Contributions and Reserves	12,148,843	-	-	12,148,843
Other Comprehensive Income	**-**	(326,895)	422,524	95,629
Retained Earnings	6,948,309	4,346,284	1,506,563	12,801,156

Consolidated Balance Sheet

Captions	BCRA	IFRS Adjustment	IFRS Balance
ASSETS	**336,413,527**	**(3,788,702)**	**332,624,825**
Cash and Due from Banks	56,266,489	2,833	56,269,322

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Government and Corporate Securities	70,692,584	(13,136,605)	57,555,979
Loans	165,183,311	(1,481,062)	163,702,249
Other Receivables from Financial Brokerage	30,452,245	475,142	30,927,387
Receivables from Financial Leases	932,886	413,650	1,346,536
Interests in Other Companies	230,951	658,833	889,784
Miscellaneous Receivables	10,220,501	405,115	10,625,616
Bank Premises and Equipment	1,804,424	8,857,819	10,662,243
Miscellaneous Assets	363,508	21,393	384,901
Intangible Assets	212,035	(5,820)	206,215
Items Pending Allocation	54,593	-	54,593

LIABILITIES	**317,316,375**	**(9,902,638)**	**307,413,737**
Deposits	258,125,594	-	258,125,594
Other Liabilities from Financial Brokerage	26,903,865	(12,823,837)	14,080,028
Miscellaneous Liabilities	27,490,922	3,090,603	30,581,525
Provisions	1,196,513	1,344,867	2,541,380
Items Pending Allocation	155,338	-	155,338
Minority Interest	383,425	(383,425)	-
Other Liabilities	3,060,718	(1,130,846)	1,929,872

Consolidated Statement of Income

Captions	BCRA	IFRS Adjustment	IFRS Balance
NET INCOME FOR THE YEAR	**6,961,874**	**1,487,947**	**8,449,821**
Financial Income	43,058,668	(957,613)	42,101,055
Financial Expenditure	(15,300,805)	(31,916)	(15,332,721)
Provision for Loan Losses	(2,120,241)	-	(2,120,241)
Income from Services	35,397,981	(375,917)	35,022,064
Expenditure for Services	(29,484,610)	-	(29,484,610)
Administrative Expenses	(23,446,169)	(1,494,070)	(24,940,239)
Other	(579,632)	4,674,594	4,094,962
Minority Interest		(18,615)	(18,615)
Income Tax	(563,318)	(308,516)	(871,834)
OTHER COMPREHENSIVE INCOME	**-**	**422,525**	**422,525**
Exchange Differences for Conversion of Financial Statements		80,278	80,278
Profit or Loss for Financial Instruments at Fair Value with Changes in OCI (Items 5.7.5 and 4.1.2A of IFRS 9)		342,247	342,247
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**6,961,874**	**1,910,472**	**8,872,346**

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KPMG

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Comprehensive Income Attributable to:	8,872,346,
Total Comprehensive Income Attributable to the Owners of the Controlling Company	8,890,961
Comprehensive Income Attributable to Non-controlling Interests	(18,615)

Consolidated Statement of Changes in Net Worth

Captions	BCRA	IFRS Adjustment 1st time	IFRS Adjustment	IFRS Balance
NW Attributable to the Owners of the Controlling Company	**19,097,152**	**4,019,389**	**1,929,087**	**25,045,628**
Capital, Contributions and Reserves	12,148,843			12,148,843
Other Comprehensive Income		(326,825)	422,525	95,700
Retained Earnings	6,948,309	4,346,214	1,506,562	12,801,085
NW Attributable to Non-controlling Interests		184,075	(18,615)	**165,460**

Note 20. Other

20.1. Items Pending Allocation

This caption, appearing in both Assets and Liabilities, includes the following peso and foreign currency items:

	12/31/2017		12/31/2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Own Funds	9,611	36,282	7,059	3,753
Third-party Funds	11	4,026	42	279
Other	44,971	51,321	27,195	18,209
	54,593	**91,629**	**34,296**	**22,241**

These items are monitored and cleared by the Bank, carrying out a regular follow-up of their breakdowns and control over different items. This has enabled the Bank to reduce the number of unresolved cases. Therefore, at December 31, 2017, there appears no significant balance inconsistent with the regular transactions usually carried out by the Bank.

20.2. Contributions to Health and Social Services and Social Security

The Bank contributes to the Health and Social Services Commission (*Comisión de Servicios Sociales*), which arranges for the distribution of funds among its affiliated entities. Therefore, the Bank is not bound to make contributions to the Health and Social Services Institute for Bank Employees (*Instituto de Servicios Sociales Bancarios*), according to the provisions of Law 19322, Section 17.

Retirement and pension contributions are made to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel governed by Provincial Law No. 11761 in force until November 2008 and by Provincial Law No. 13873 effective since December 1, 2008. Therefore, the Bank is not required to contribute to any other retirement and pension fund system.

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KPMG

(Partner)

Fernando L. Arriola
General Accountant

Daniel H. Alonso
General Manager

Juan E. Curutchet
President

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At December 31, 2017 and 2016, the Bank recorded $5,313,786 and $7,468,923 under the "Miscellaneous Receivables" caption on account of advances of pension contributions granted to such body. The purpose was to cover the deficit in pension payments until transfer by the Province of the pertinent funds. (See Note 20.3).

20.3. Issuance of Debt Securities by the Province of Buenos Aires

On July 31, 2013, through Executive Order Nº 1620 dated December 28, 2012, the Bank was informed that the Provincial Executive Branch provided for the issuance of a Government Bond for a nominal value of $350,000 to partially settle debts arising from advances made by the Bank to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel to cover any deficit recorded in 2012, according to the provisions of section 56 of the Provincial Budgetary Law Nº 14331.

On such date, the Bank was also informed that, through Executive Order Nº 2094 of December 28, 2012, the Provincial Executive Branch approved the "Debt Consolidation Agreement" between the Provincial Ministry of Economy and the Bank providing for the reciprocal offsetting of claims, as identified and approved by the parties involved. After signing the pertinent agreement, a claim for $3,435,991 resulted in favor of the Bank, which shall be settled by the Province through the delivery of a Government Bond, at its nominal value up to the total contractual amount, repayable at 6 years from issuance date (December 28, 2012), according to the terms and conditions stated in Provincial Executive Order No. 2190/12.

In December 2014, the Bank was informed of the issuance of Executive Orders Nos. 1679 and 1680 dated December 30, 2013. Through Executive Order No. 1679/13, the Provincial Executive Branch provided for the issuance of a Government Bond for a nominal value of $1,599,161 to partially settle debts arising from advances made by the Bank to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel to cover the deficit recorded in 2013. (See Note 20.2).

Through Executive Order No. 1680/13, the Addendum to the Debt Consolidation Agreement dated December 28, 2012 was approved and duly signed by the Provincial Ministry of Economy and the Bank on December 30, 2013, thus amending the terms and conditions of the Government Security approved under Executive Order No. 2190/12.

On April 30, 2015, through Resolution No.520/15, the Bank's Board of Directors resolved to approve the steps taken by the Bank's President with respect to the second Addendum to the Mutual Debt Offsetting Agreement with the Province of Buenos Aires dated December 30, 2014. Such addendum, enforceable upon approval of the pertinent rules, introduced a new amendment to the terms and conditions of the mentioned bond, by adding to the claims to be set off, the capitalized interest amount for the 2013 and 2014 fiscal years and the interest amount outstanding at December 31, 2013. Thus, the amount to be received by the Bank totaled $4,806,479.

In September 2015, the Bank was informed about the issuance of Executive Order No. 2100/14 dated December 30, 2014 that modifies the terms and conditions of the bonds approved by Executive Orders Nos. 1620/12 and 1679/13.

In December 2015, the Bank was informed about the issuance of Executive Order No. 1954/5 dated December 1, 2015, whereby the Provincial Executive Branch provides for the issuance of bonds for a nominal value amount of $2,079,000 to partially settle debts arising from advances made by the Bank to the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel to cover the deficit recorded in 2014.

At the date of issuance of these Financial Statements, the Government of the Province of Buenos Aires has requested authorization from the National Ministry of Economy to issue the mentioned bonds, and the pertinent approval is still pending.

Such receivables are recorded under the heading "Other Receivables from Financial Brokerage – Other included in the Debtors' Classification Rules".

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On March 16, 2017, the Bank was informed about the issuance of Executive Order No. 163/17 and tendered its approval to the Agreement entered into between the Province of Buenos Aires and the Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel, whereby the 2015 and 2016 deficits were settled through the delivery of government securities for a nominal value of $7,374,348. At December 31, 2017 these holdings were booked at cost plus yield for $7,855,342 under the "Government and Corporate Securities" caption.

On February 19, 2018, through Resolution No. 53/18, the Provincial Ministry of Economy provided for the issuance, in favor of the Bank, of "Provincial Debt Securities in pesos - Series I - Class II", with issuance date December 6, 2016 and maturity date December 6, 2019" for a nominal value of $4,259,606 to settle debts arising from advances made by the Bank to the Retirement and Pension Fund to cover the deficit recorded in 2017 for $5,219,212.

20.4. Branches Abroad

On March 19, 2009, by Resolution No. 324/09, the Bank's Board of Directors decided the closing of its Grand Cayman Branch and informed by letter to the Cayman Islands Monetary Authority accordingly.

According to the provisions stated in Annex to the Closing Action Plan, by Resolution No. 1609/16 dated December 29, 2016, the Board of Directors stipulated the final closure of the Grand Cayman Branch and the Panama representative office. Therefore, all their inventories were liquidated and every action to achieve closure was taken.

At the date of issuance of these Financial Statements, the Board of Directors' stipulation had been complied with.

On October 26, 2017, through the Board of Directors' Resolution No. 1318/17, the Bank decided to change the legal status of the Sao Paulo Branch to Representative Office.

20.5. Market Discipline

As required by Communication "A" 5394, the "Institutional" tab of the Bank's web page (www.bancoprovincia.com.ar) contains a document entitled "Market Discipline – Minimum Reporting Requirements" which provides data regarding its structure, capital adequacy, risk exposure and general management.

20.6. Settlement of debts with National Public Debt Bonds

National Executive Order No. 469/02 dated March 6, 2002 regulated the procedure for settling debts with the Financial System provided for by Executive Order No. 1387/01, sections 30 a) and 39, as amended and supplemented by Executive Orders Nos. 1524/01 and 1570/01.

By Communication "A" 3398, the Argentine Central Bank established the pertinent regulations for the settlement with National Public Debt Bonds of debts owed by debtors classified under categories 1, 2, 3, 4 and 5 at August 2001, conditioning the settlement by debtors in categories 1 to 3 with prior approval of such Institution.

Under the above procedure, 327 debtors paid off principal and interest debts for $102,749 between February 14, 2002 and May 15, 2002.

The Bank has recorded the Government Securities received in settlement of the above debts at the higher of the Bond's price or the book value of the loan paid off, net of allowances. Such Government Securities were delivered to the National Government in exchange for Secured Loans under Executive Order No. 1387/01.

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In addition, 276 debtors classified under categories 1 to 3 at August 2001 brought legal actions against the Bank to protect their rights (amparos) since the above method was not accepted to pay off their debts. As a consequence, precautionary measures prohibiting the Bank from changing the customer's situation until rendering of final judgment were issued in favor of debtors, thus preventing any legal action against them. The Bank has been legally defending its rights and has analyzed whether pending actions are similar to the case seeking declaration of unconstitutionality entitled "Agüero Máximo José y Ovejero Cornejo de Agüero, Teresa c/ Banco de la Nación Argentina s/ Acción Declarativa de inconstitucionalidad" where judgment has already been rendered by the Argentine Supreme Court. The analysis reveals an 80% similarity in allegations of facts.

At the date of these Financial Statements, the Bank may assure that 34% out of all pending trials will not have adverse effects on it; that is, even though the trial is in process, the alleged claim is already settled. With the intention of terminating court actions, various petitions defending the Bank's interests have been filed; however, the favorable decisions obtained could not be executed yet due to delays in Federal Courts attributable to the high volume of cases dealing with "corralito" matters.

Mention should also be made that 60% of such actions are pending in the jurisdiction of La Plata, where the above ruling by the Argentine Supreme Court has been adhered to by all instances.

Therefore, the Bank estimates that the remaining cases would not significantly impact on its net worth since, although trials are in process, they have no negative bearing on the provisions it has set up.

20.7. Amounts Paid under Injunctions

In accordance with Communication "A" 3916, any differences arising from compliance with judicial orders under legal actions brought by natural and artificial persons against the National Government and/or financial institutions, regarding the conversion into pesos and rescheduling of foreign currency deposits decided by the National Executive Branch, are informed under the "Intangible Assets - Organization and Development Expenses" caption, and will be amortized in 60 months.

Therefore, at December 31, 2017 and 2016, the Bank registered under the "Intangible Assets – Organization and Development Expenses" caption the original value of the difference between the amount paid under the court order and the amount entered according to the rules in force at the payment date for $1,067,284 and $1,061,026, respectively; and $1,023,739 and $1,005,191 corresponding to the accumulated amortization.

In compliance with Communication "A" 4439, the Bank has decided to defer, since December 2005, the recording of losses on exchange differences capitalized in the Financial Statements for an amount equivalent to 50% of new commercial loans for terms averaging not less than 2 years with certain restrictions; this amount could not exceed 10% of the adjusted net worth as of the second prior month.

20.8. Rules for the protection of financial service users

On June 10, 2014, the BCRA issued Communications "A" 5590 to 5593, which were immediately implemented after their issuance. They amended the provisions governing consumer and pledge loans and tightened control over interest rates, fees and charges. The new measures provide:

a) for the application of benchmark interest rates for consumer and pledge loans granted to individuals (not MiSMEs) with a cap amount for the pertinent term and a multiplicative factor ranging from 1.25 to 2.00, depending on the type of loan and the Group to which the Bank belongs.

b) for the introduction of the "Nominal Annual - Total Financial Cost" concept in order to avoid distortions. It will be

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expressed as a nominal annual rate (percentage and two decimals) that will arise from adding the pertinent transactional fees and charges to the interest rate.

c) that financial institutions and non-financial issuers of credit cards shall obtain the prior authorization of the Central Bank to increase basic financial service costs and implement changes in the relevant items, all of which shall be formally requested to the BCRA.

At present, the mentioned rules have not significantly impacted on the Bank's financial statements.

20.9. Penalties imposed on the Bank and administrative proceedings instituted by the BCRA.

Penalties:

In File No. 1332/13, the UIF initiated investigation proceedings to determine if the Bank had failed to report 17 foreign currency purchase transactions for $513 made by Mr. Ernesto Jacubowicz from October 14, 2008 to March 11, 2009. The UIF's Resolution No.544/13 ordered an investigation proceeding to determine the responsibilities of Banco de la Provincia de Buenos Aires, its Board of Directors and the pertinent Compliance Officer. The UIF imposed the Board of Directors and the Compliance Officer, on one hand, and the Bank, on the other, to pay a penalty of $513 within 10 days. Such penalties were duly paid and a direct appeal against the UIF's Resolution was filed before the National Court of Appeals in Administrative Matters, Division III (case entitled "Banco de la Provincia de Buenos Aires c/ UIF s/Código Penal Ley 25.246 – Decreto 290/07 – art. 25 (Expte: 5621/2016)". On July 12, 2016, the Court ordered to serve notice of such direct appeal to the UIF. On September 27, 2016, notice of these proceedings was served to the UIF who duly answered on November 15, 2016. On February 2, 2017, the Court of Appeals admitted the appeal submitted by the Bank on the basis that the UIF's action was barred by the applicable statute of limitations. On February 16, 2017, the UIF filed an extraordinary appeal, which was answered by the Bank on March 8, 2017. On March 16, 2017, the Court of Appeals dismissed this appeal and on March 27, 2017 the UIF lodged a new appeal requesting that such dismissed appeal be sustained by the Argentine Supreme Court of Justice. Currently, the case is pending.

In File No. 1793/13, the UIF initiated investigation proceedings to determine if the Bank had failed to report foreign currency purchase transactions for $303 made by Mrs. María Rosa Batistutti from February 26, 2009 to June 29, 2009.
The UIF's Resolution No. 600/13 ordered an investigation proceeding to determine the responsibilities of Banco de la Provincia de Buenos Aires, its Board of Directors and the pertinent Compliance Officer. The UIF imposed the Board of Directors and the Compliance Officer, on one hand, and the Bank, on the other, to pay a penalty of $303 within 10 days. Such penalties were duly paid and a direct appeal against the UIF's Resolution was filed before the National Court of Appeals in Administrative Matters, Division II (case entitled "Banco de la Provincia de Buenos Aires c/ UIF s/ Código Penal Ley 25.246 – Decreto 290/07 – Art. 25 (Expte: 380/2016)". On September 20, 2016, the Court decided that the UIF had no power to impose a penalty based on the statute of limitations. The Bank was notified on September 22, 2016. On October 6, 2016 the UIF filed an extraordinary appeal which was duly answered. On December 26, 2016, the Court denied such appeal and ordered the UIF to pay legal costs. On February 7, 2017, the UIF lodged a new appeal requesting that such dismissed appeal be sustained by the Argentine Supreme Court of Justice. Currently, the case is pending resolution.

In File No. 1645/13, the UIF initiated investigation proceedings to determine if the Bank had failed to report foreign currency purchase transactions for $337 made by Mr. Jorge Alberto Rodríguez from January 15, 2009 to May 15, 2009. The UIF's Resolution No. 523/13 ordered an investigation proceeding to determine the responsibilities of Banco de la Provincia de Buenos Aires, its Board of Directors and the pertinent Compliance Officer. The UIF imposed the Board of Directors and the Compliance Officer, on one hand, and the Bank, on the other, to pay a penalty of $337. Such penalties were duly paid and a direct appeal against the UIF's Resolution was filed before the National Court of Appeals in Administrative Matters, Division I (case entitled "Banco de la Provincia de Buenos Aires c/ UIF s/ Código Penal Ley 25.246 – Decreto 290/07 – Art. 25 (Expte: 379/2016)". The FUI was notified of this proceeding, which was duly answered. On March 23, 2017, the Court of Appeals admitted the direct appeal brought by the Bank on the basis that the UIF's action was barred by the applicable statute of limitations. The UIF filed an extraordinary appeal, duly answered by the Bank on June 15, 2017. The Court denied such appeal, notified its resolution on August 7, 2017 and ordered to pay legal costs. The UIF did not lodge a new appeal against the resolution in favor of the Bank. As a result, this ruling was final. However, the Supreme Court has not yet imposed legal costs.

Administrative Proceedings instituted by the BCRA:

Financial administrative proceedings – File No. 1324/2010

Notice of these proceedings was served on February 8, 2012 and duly answered on February 16, 2012. Proceedings arise from the presumed breach of the duty to report the appointment of new authorities and the lack of submission or late submission of the documents related to such appointments from January 9, 2006 to October 13, 2006. The mentioned breach would have occurred between December 19, 2007 and September 15, 2008 taking into account the due date to inform the appointments and the date of actual delivery of the requested documents. The Central Bank's Resolution No. 434, dated February 7, 2012, instructed to carry out investigation proceedings against Banco de la Provincia de Buenos Aires and Messrs. Martín Lousteau and Guillermo Francos under section 41 of the Law of Financial Institutions. The alleged breach is of a legal and regulatory nature and the penalty amount has not been determined yet. The outcome of the actions cannot be foreseen with certainty, therefore it is not possible to predict occurrence and make a pecuniary estimation. On December 4, 2017, the Bank was notified of Resolution No. 850, issued on November 24, 2017 by the Superintendency of Financial and Foreign Exchange Institutions, whereby a "Reprimand" was imposed on the Bank in accordance with the provisions under Article 41.1. of the Law of Financial Institutions No. 21526. Mr. Martín Lousteau and Mr. Guillermo Francos were acquitted of all charges.

20.10. Risk Management

The Bank has in place a comprehensive risk management policy and develops new strategies oriented to risk identification, measurement, follow up and mitigation of risks in accordance with the best practices laid down by the Basel Committee and incorporated by the BCRA.

Risk Management – Structure and organization, approval and exceptions to existing limits

In accordance with the rules set forth by the Regulatory Authority (Consolidated text of "Guidelines on Risk Management in Financial Institutions"), the Board of Directors approved the structure necessary to perform a comprehensive risk management in terms of size, economic relevance, nature and complexity of the transactions carried out by the Bank.

For that purpose, the Bank has created the Risk Administration Management reporting to the Risk Deputy General Management and consisting of the following Deputy Managements:

- **Credit Risk** carries out the follow-up of credit, credit concentration, country, counterparty and residual risks.
- **Operational Risk** also monitors reputational risk.
- **Financial Risk** measures market, interest rate, liquidity, funding concentration, strategic and securitization risks.

Moreover, the Risk Committee was created to give an institutional treatment to the policies, strategies and procedures that constitute the "Management Framework" for each of the managed risks, which are subject to revision and/or updating at least once a year.

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This Committee is in charge of determining the Bank's tolerance risk in terms of the defined purposes and of submitting the proposals to the Board of Directors for approval. Therefore, it is important that management policies, tools and procedures match the stated risk appetite so as to ensure that the risks taken are within the limits defined.

An "Exceptions to Limits Procedure" is available for situations where, as a result of the daily Bank's transactions, the limit fixed by the Strategies and Policies defined for each of the main risks needs to be surpassed. This envisages the adoption of guidelines for the decision-making process and the determination of the responsible area, in order to ensure an effective coordination and communication bank-wide. Therefore, it is of vital importance that the whole banking institution be aware of the limits set on the risks faced by the Bank and of the procedure to be followed upon surpassing the limits.

Scope and nature of risk reporting and risk measurement systems

Pursuant to the consolidated text of the "Guidelines on Risk Management in Financial Institutions" issued by the BCRA, the institutions must define limits to manage their main risks and analyze their exposures, implementing proper procedures to carry out an appropriate follow-up and taking the relevant measures if exposures approach such limits.

At the same time, the Bank has to determine intermediate thresholds to monitor the risks evolution and, if necessary, to take follow-up actions or corrective measures so as to adopt a proactive stance on the development of the risk factor causing such approach.

An Early Warning Risk Indicator System (SIRAT) is used to ensure an adequate and comprehensive monitoring and follow-up of the risks to which the Bank is exposed. This system is subject to the Board of Director's guidelines and the regulations in force. It works as a balanced scorecard tool that includes a set of key risk indicators for each significant risk; contingency and management limits are also established for financial and credit risks.

Among the several tools used to monitor the risks under management, one of them is the monthly Managerial Report submitted to the Risk Committee. This Report provides information on the evolution and follow-up of different risks (the frequency depends on the type of risk) and takes into account certain aspects such as:

- **Credit:** loan portfolio composition and evolution, non-performing share and levels, sensitivity analysis, monitoring of significant macroeconomic and financial variables to avoid potential negative effects on customers' behavior, comparative analysis with the Financial System; country risk, branches abroad, etc. Credit risk measurement systems have been calibrated according to the information migrated during the year, which is available in the corporate data warehouse.

- **Market:** daily measurement of the exposure to the market risk, ongoing follow-up of the conditions in local and international financial and monetary markets, with special emphasis on the control of different market risk factors (interest rates, prices of government securities, exchange rates, etc.). Likewise, in order to monitor this indicator on a daily basis, a new tool has been developed to forecast the impact of different purchase/sale transactions regarding assets exposed to market risk.

- **Liquidity:** daily follow-up monitoring certain variables, such as basic and broad liquidity ratios (both in pesos and foreign currency), deposits (evolution, average terms, demand deposits against term deposits, share of retail and wholesale deposits, etc.), loans (growth pace of deposits, average terms and rates, etc.) and borrowing interest rates (of the Bank and the average Financial System for the retail and wholesale segments). Through the development of a liquidity GAP assessment tool, the Bank manages the inflows and outflows of funds for different time periods. The liquidity GAP tool helps calculate any asset/liability mismatch at a certain date and for

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accumulated time periods (both in the contractual GAP or current GAP versions where some assumptions on the asset/liability performance are included).

- **Concentration:** analysis and monitoring of a set of metrics intended to limit excessive funding concentration. It is measured on a customer basis, tracking the individual and group exposures of the Bank's largest depositors, analyzing Public and Private Sectors separately.

The analysis of concentration by Herfindahl Hirschman Index (HHI) and major debtors' share enables to create concentration ratios that may be allocated to different sectors, products or lines of business. According to the ratios defined by indicators, limits, weighting factors or capital allocations may be determined to mitigate the lack of diversification of the relevant portfolio, product or sector. To this effect, the following aspects are analyzed:

- HHI 1000 Major Clients – Total Portfolio
- HHI 1000 Major Clients – Private Sector
- Concentration of 10 Major Debtors
- Concentration of 10 Major Debtors from the Private Sector

- **Interest Rate:** there are two different ways of approaching interest rate risk management:
    - Financial margin (NII): estimates the potential impact of increased interest rates on the net financial income expected for the next twelve-month period.
    - Economic value (EV): calculates the potential variation in the Bank's economic value in case of an increase in interest rates.

- **Strategic Risk**: is mainly addressed through a careful analysis of quarterly deviations from the Business Plan, using a macroeconomic approach that helps understand the Bank's operating context so as to identify whether deviations from goals arise from exogenous or endogenous factors.
  Likewise, an indicator with its pertinent contingency and management limits was developed.

- **Operational Risk**: new risk indicators are being developed based on the collection of operational risk events – for the purpose of the compliance with the prevailing reporting requirements, the internal management of risks and the performance of operational risk self-assessments. To this end, new assessment guidelines were defined, grounded on expert judgment.

- **Reputational Risk:** key indicators are monitored, based on data collected from different sources (mass media, in-house information on complaints lodged by customers and non-customers).

Risk coverage and mitigation policies; procedures to test coverage efficiency

- Credit concentration and credit risks: the Bank monitors the Probability of Default (PD) for each loan portfolio, adjusting the pertinent methodologies on a case-by-case basis. In order to analyze risk coverage, the Expected Losses (EL) for the different loan portfolios are measured and subsequently matched against allowances; the economic capital (EC) required is calculated to protect the Bank against unexpected losses.
  Three essential parameters are used in the calculation of EL and EC: probability of default (PD), exposure at default (EAD) and loss given default (LGD), which are estimated on the basis of the historical information available in data warehouse. The credit rating tools (ratings and scorings) assess the risk inherent in each transaction, facility or customer in accordance with their credit quality by assigning them a score. Credit risk for the Bank's portfolio is

measured through a model where the effects of concentration and diversification are analyzed. This model enables a more comprehensive calculation of capital needs considering that risk comes from various sources. It is sensitive to geographic and sector diversification and to credit exposures of the Bank's largest customers.

- **Market risk:** The Bank makes a daily follow-up of all exposures to market risk. Market risk is mitigated by selling long positions or matching short positions, verifying afterward the effective risk reduction.

- **Liquidity risk**: the Bank carries out a conservative strategy, taking into account that deposits are its main source of funding. Liquidity risk is daily managed through a large set of indicators, as stated above.

- **Interest Rate Risk:** is one of the most complex financial risks to be covered. Liabilities with an average life shorter than assets constitute a distinctive feature of commercial banks, representing the main source of interest rate risk. In this sense, mitigation measures include the risk analysis of new products, taking into account, among others, the following parameters: credit facilities terms, type of interest rates (fixed, variable or mixed) and amortization system (German, French, etc.).

- **Operational Risk:** workshops and training courses intended to spread the operational risk culture bank-wide were held throughout the year. With respect to Operational Risk/Technological Risk integration a new IT functionality was implemented during 2017. This enables the user to visualize the technological risk for each of the Bank's business processes, suggesting IT solutions (including one or more IT assets) and offering a general view of both business and technological risks.

20.11. Transparency Policy on Corporate Governance

In compliance with the provisions of the Law of Financial Institutions No. 21526 and the regulations issued by the BCRA, the Bank has implemented an Institutional Governance Code taking into consideration the above guidelines.

On March 7, 2012, the BCRA issued Communication "A" 5293 requiring financial institutions the publication of information on their Transparency Policy as regards Corporate Governance. The Code implemented by the Bank contemplates its prevailing regulatory framework. It includes the following information:

Structure of the Board of Directors

The Bank's Charter was enacted by Decree Law No. 9434/79. It includes the amendments introduced by Decree Law No. 9840/82 and has been ordered in accordance with Executive Order No. 9166/86. It also includes several amendments introduced by other provincial laws, and is the main Law governing the operations of the Bank. It consists of 15 chapters regulating the Bank's activities, transactions, functions and administrative and governance responsibilities.

The administration of the Bank shall be vested in a Board of Directors consisting of one (1) Chairman and eight (8) voting members, all of whom shall be of Argentine nationality. They shall be appointed by the Provincial Executive Branch and the approval of the Senate of the Province of Buenos Aires shall be required. The Chairman and the voting members shall be duly qualified for their offices.

Members shall hold office for a term of four (4) years and may be re-elected. One half of the voting members shall be renewed every two (2) years.

Legislators,judges, mayors and city council members; wage-earners, salaried employees or officers of the national, provincial

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or municipal governments, as well as administrators, chairmen, directors, managers or employees from other banks shall not be eligible as Chairman or as members of the Board of Directors. Any individual holding office in any economic or financial coordination government agency, whether at the national, provincial or inter-provincial level, as well as any individual holding a teaching or educational position shall be exempted from the above-mentioned disqualifications.

At its first meeting held every year, the Board of Directors shall elect from its own number a Vice-Chairman and a Secretary.

Any vacancy of the office of Chairman or Director shall be filled by a substitute appointed for the remaining term. In case of absence or inability of the Chairman, his/her powers and duties shall devolve on the Vice-Chairman. Should both of them be absent, the Board of Directors shall be chaired by the eldest director. In the event of absence or inability of the Secretary, the Board of Directors shall appoint a substitute.

Structure of the General Management

The Charter also establishes that the management of the Bank shall be vested in a General Manager and, as applicable, in a Deputy General Manager.

The Board of Directors shall regulate the duties to be performed by the members of the General Management, and the General Manager shall be the Chairman's and Directors' immediate advisor.
They shall have the necessary qualifications and expertise in financial matters to administer and manage the banking business as well as the adequate control of the personnel under their direct supervision.

Commissions and Committees

The Bank has Internal Governing Rules in place regulating the operation of the Board of Directors' Commissions and Committees. Such rules provide for the duties and responsibilities of the members of such Commissions and Committees, which shall be composed as follows:

Coordinator: A Director appointed by the Chairman of the Board of Directors.

Members:

- At least three Directors, including the Coordinator, appointed by the Chairman.
- Members of the General Management (General Manager, Senior Deputy General Manager or Deputy General Managers) in charge of supervising the pertinent commission's or committee's areas of responsibility.
- Officers in charge of the organizational units engaged in the activities under the responsibility of the pertinent commission or committee (minimum rank: Deputy Department Manager).

Board of Directors' officers and collaborators may attend as participants, if necessary.

The Bank provides for the operation of the following Commissions and Committees:

- Auditing Committee
- Administration Commission
- Assets and Liabilities Management Committee
- Credit Management Commission
- Anti-Money Laundering Committee

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- Internal Affairs Commission
- Legal Affairs and Delinquency Commission
- Human Resources Committee
- IT and Systems Committee
- Finance Commission
- Risk Committee
- Institutional Governance, Ethics and Compliance Committee
- IFRS Convergence Committee
- Business Development Commission

Organizational Structure

At December 31, 2017, the Bank has 10,407 employees and a network for the distribution of products and services consisting of 346 branches (including delegations), and 35 operating annex buildings throughout the Province of Buenos Aires and the Autonomous City of Buenos Aires.

The following officers and units shall report to the Board of Directors/Chairman:

- Internal Affairs
- Internal Audit Unit
- Compliance and Economic Research
- Institutional Communication
- Anti-Money Laundering
- "Dr. Arturo Jauretche" Historical Archives and Museum of the BPBA.
- Administrative Unit
- Minutes Secretary's Office
- Strategic Management Unit

The following areas shall report to the General Manager:

- Deputy General Management – Finance
- Deputy General Management – Marketing and Loans
- Deputy General Management – Business Development
- Deputy General Management – Risks
- Deputy General Management – Administration
- Deputy General Management – Processes and Technology
- Deputy General Management – Commercial Network and Business Support
- Legal Opinions
- Human Resources
- Administrative and Professional Support Unit

Information on economic incentives to staff members

The Board of Directors is responsible for defining the incentive policy for staff.

Likewise, in line with the provisions of the Bank's Administrative Manual, the implementation of general incentive programs is within the scope of the Human Resources Management.

Taking intoaccount the impact of the incentive program conditions and considering that their main goal should be to reduce

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(In thousands of pesos)

an excessive risk taking derived from its own structure, Risk Management, upon requirement of the originating party, issues a report on reasonable risk taking and submits it for consideration of the Board of Directors.

By means of the Potenciar tool, goals are set for Regional Centers, then they are measured and assessed. The participating agents receive an extra amount on their salary, according to the business goal achieved.

In general terms, since 2017 the Bank has decided to implement short term incentive programs and policies recognizing the effort made by employees to meet certain institutional targets.

By implementing programs seeking to promote the Bank's products and/or services, employees are rewarded, either individually or collectively, according to their efforts.

Business Conduct Policy and/or Ethics Code, and Applicable Governance Policy or Structure

The Bank has established that its employees, irrespective of their type of labor relationship, shall avoid any situation that may give rise to a conflict of interest, whether private or personal, capable of compromising the impartiality and objectivity required for the performance of their duties.
Private or personal interests shall mean any benefit in favor of the employee, his/her family members or close friends and/or any third party.

Under the Bank's Bylaws and Disciplinary Rules of Procedures, employees are obliged to decline any participation in an issue in which their involvement may be considered partial or morally incompatible; they must also report to the pertinent senior authorities any action or proceedings that may prove detrimental to the Bank or constitute a crime or administrative offence.

Such Bylaws provide that, notwithstanding any civil or criminal liabilities arising therefrom, infringements by employees may be subject to the following disciplinary measures:

- Reprimand
- Warning
- Conditional suspension
- Suspension
- Promotion postponement
- Demotion
- Layoff
- Dismissal

The scope and effect of these disciplinary measures, as well as the authority empowered to impose them upon administrative investigation, are defined in the pertinent regulations.

The Bank's Role as Financial Agent of the Non-Financial Public Sector

As stated in its Charter, the Bank is the financial agent for the Government of the Province of Buenos Aires. It enjoys full autonomy and shall be exclusively administered by its Board of Directors.

The relationship between the Bank and the Provincial Executive Branch shall be held through the Ministry of Economy of the Province of Buenos Aires.

Conflicts of Interest Policies

The Bank laid out the guidelines to refrain from taking certain decisions that might involve conflicts of interest with respect to the activities and commitments of the members of the Board of Directors and the General Management with other

Banco Provincia

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(In thousands of pesos)

organizations.

Public Information

In order to encourage good Institutional Governance, the Bank publishes in its web page www.bancoprovincia.com.ar relevant information to depositors, investors and general public. That information includes:

a. Charter
b. Authorities
c. Organizational Structure
d. Institutional Governance Code
e. Ethics Code and Manual of Good Banking Practices
f. Transparency Policy
g. Sustainability and Quality Policy
h. Code of Conduct in the Role as Settlement and Clearing Agent
i. Role as Financial Agent of the Provincial Public Sector
j. Conflicts of Interest Policy
k. Market Discipline. Minimum Disclosure Requirements
l. Code of Conduct – Anti-money Laundering and Terrorist Financing
m. Annual Report and Financial Statements together with their notes, exhibits and independent auditor's report.
n. Information requested by Communication "A" 5460 of the BCRA on Protection of Financial Services Users.
o. Information about ATMs accessible to visually impaired people
p. Acquisition and Procurement
q. Join Banco Provincia's team.

Note 21. Breakdown of "Miscellaneous" or "Other" Items with Balances Exceeding 20% of the Total for the Relevant Caption

There follows a breakdown of the "Miscellaneous" and "Other" items in the Financial Statements for the fiscal year ended December 31, 2017 and comparative figures:

	12.31.2017	12.31.2016
1. Other Receivables from Financial Brokerage - Other included in the Debtors' Classification Rules		
. Bonds to be received - Province of Buenos Aires	6,413,524	7,272,522
. Deposits in foreign banks	1,420,033	399,862
. Payment on behalf of third parties	733,897	47,641
. Other	213,610	215,413
	8,781,064	**7,935,438**
2 Interests in Other Companies – Other		
. In Grupo Banco Provincia S.A.	1,520,372	173,609
. In Provincia Microempresas S.A.	66,465	33,604
. In Red Link S.A.	7,028	7,028
. In BA Desarrollo S.A.	4,760	4,714
. In Prisma Medios de Pago S.A.	3,409	3,409

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March 01, 2018
KPMG

(Partner)
C.P.C.E.P.B.A. Vº 1 Fº 193 Folder 193

Fernando L. Arriola General Accountant	Daniel H. Alonso General Manager	Juan E. Curutchet President	Claudio Bercholc Public Accountant (UBA) C.P.C.E.B.A – Volume 69 – Folio 241 Folder No. 17786-5 Taxpayer registration code: 20-12400104-9

Banco Provincia

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(In thousands of pesos)

. Other	8,104	4,841
	1,610,138	**227,205**

3 Miscellaneous Receivables – Other

. Advance Payments	4,042,593	5,632,982
. Guarantee Fund – Visa Argentina	489,821	407,482
. Sundry Debtors	369,942	377,161
. Funds for Financing Own Users' Purchases Abroad - Visa Argentina S.A.	245,444	135,889
. Peso loans to staff	72,560	78,547
. Compensations and Balances to be Recovered from Claims	38,774	39,274
. Debtors related to Summary Proceedings pending Resolution	17,203	15,444
. Receivables and Goods, to be Received in lieu of Payment	4,768	5,027
. Other	64,963	48,950
	5,346,068	**6,740,756**

4 Other Liabilities from Financial Brokerage - Other

. Liabilities from Financing of Purchases	4,025,887	2,759,902
. Miscellaneous Liabilities not subject to Minimum Cash Requirements	959,785	720,522
. Foreign Exchange Transfers pending Payment	603,019	318,858
. Update of Tax Withholdings and Collections	352,952	265,006
. Taxes on Bank Debits and Credits	207,130	153,580
. Gross Income – Collection Procedures	168,520	141,143
. Pension Payment Orders Pending Settlement	161,246	109,741
. Withholdings and Collections – Other Taxes	159,623	118,375
. Collections and Other Transactions on behalf of Third Parties	122,019	129,893
. Not Applied Proceeds – Debtors under Memorandum Accounts	25,772	19,966
. Export Collections pending Settlement	3,120	58,991
. Miscellaneous Liabilities from Purchases abroad	535	11,836
. Other	391,346	261,990
	7,180,954	**5,069,803**

5 Miscellaneous Liabilities – Other

. Sundry Creditors	907,696	471,190
. Taxes Payable	284,227	372,910
. Payroll and Social Security Taxes Payable	132,162	101,627
. Miscellaneous Withholdings Payable	42,315	30,782
. Advances for Sale of Assets	11,183	6,477
. Advance Collections	125	858
. Other	4,324	3,373
	1,382,032	**987,217**

6 Memorandum Accounts – Control – Debit

. Items in Safekeeping	74,498,284	48,885,799
. Total Overdrafts in Pesos	2,388,118	1,939,824
. Items to be Debited	946,662	1,052,090
. Items for Collection	522,449	305,601

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Banco Provincia

NOTES TO THE FINANCIAL STATEMENTS
AT DECEMBER 31, 2017 AND COMPARATIVE PERIODS
(In thousands of pesos)

. Loans for SMEs and Micro enterprises	2,017	2,549
. Other	1,687,982	2,759,961
	80,045,512	**54,945,824**

7 Income from Services – Other

. Commissions for Credit Card Services	5,550,394	4,917,605
. Commissions from Grupo Banco Provincia S.A. Companies	415,069	191,073
. Commissions - ATM Network	318,474	197,499
. Safe Deposit Box Rental	276,857	154,870
. Commissions for Drafts and Transfers	149,737	116,540
. Commissions for Clearing Services	131,894	107,685
. Commissions for Check Management	130,593	90,003
. Commissions on Inter-branch Cash Transactions	114,640	92,326
. Commissions for Direct Payment System	86,062	45,040
. Financing Facility for Production and Financial Inclusion	52,869	669
. Commissions for Mutual Fund	22,398	5,746
. Commissions for Salary and Wage Payments	12,481	11,292
. Commissions for Attestation of Signatures	9,514	7,365
. Commission for Pre-Allocation System	1,630	6,371
. Maintenance Fee – Private Sector Savings Accounts	11	40,402
. Other	314,052	122,730
	7,586,675	**6,107,216**

8 Expenditure for Services – Other

. Expenditure for Direct Marketing Actions	2,275,389	267,152
. Life Insurance on Financing	571,846	27,398
. Charges for Credit Card Processing	369,212	236,621
. Miscellaneous Operating Services	346,055	168,819
. Advising Payment to Pcia. Microemp. Board of Director's Resolution 203/10	340,290	286,270
. Visa International Royalties	252,685	193,651
. Notarial and Valuation Costs	208,656	7,501
. Social Security Contribution / Income from Services	181,586	147,783
. Delinquent Portfolio Recovery Services	41,423	27,941
. Expenditure for Debit and Credit Card Services	34,452	7,089
. COBINPRO Peso Commissions	9,856	7,277
. Collection Services on Credit Card Debts	6,025	4,893
. Other	33,212	130,500
	4,670,687	**1,512,895**

9 Miscellaneous Income – Other

. Regulating Reversion - Retirement and Pension Fund	1,865,487	-
. Interest on Miscellaneous Receivables	75,412	85,561
. Gains on Transactions with Bank Premises and Equipment and Miscellaneous Assets	60,935	12,529
. Trust Management Fees	25,563	14,896
. Fines and Charges for Breach of Contract	14,903	10,225
. ATMs and Cash Surplus	14,427	10,036
. Legal and Judicial Fees Accrued	12,209	12,591

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Banco Provincia

NOTES TO THE FINANCIAL STATEMENTS

AT DECEMBER 31, 2017 AND COMPARATIVE PERIODS

(In thousands of pesos)

. Rent	10,869	8,287
. Gains on Sale of Bank Premises and Equipment	2,969	273
. Gains on Cleaning up of Prior Year Balances	190	5,306
. Interest on own Capital - Sao Paulo Branch	-	28,867
. National Social Security Administration (ANSES) – Deceased beneficiaries	-	1,930
. Other	23,484	20,467
	2,106,448	**210,968**

Miscellaneous Losses – Other	**31,12,2017**	**12,31,2016**
. Loss of Value – Bank's Retirement and Pension Fund	1,326,703	1,141,498
. Loss of Value - Bonds to be received OCIF (Other Receivables from Financial Brokerage)	858,998	-
. Donations	120,850	102,789
. National Social Security Administration (ANSES) – Deceased beneficiaries	108,287	94,428
. Special Contribution to the Bank's Retirement and Pension Fund - Section 78, Law No. 13364	42,843	23,141
. Loss for Write-off of Intangible Assets	29,951	224
. Non-Recoverable Portfolio Expenses	29,884	29,265
. AFIP Penalties and Interest Due to Late Submission	16,488	665
. Losses for Cleaning up and/or Adjustment of Balances	4,045	3,458
. Health and Social Services Contributions	2,905,	2,868
. Loss for Transactions with Bank Premises and Equipment and Miscellaneous Assets	2,673	2,498
. Events Detrimental to the Bank	2,014	1,468
, Discount on Mortgage Loans - Principal	1,594	1,635
, ATM cash shortage	1,475	1,129
, Discount Rate Difference - Provincia Leasing	1,227	-
, Other	13,306	7,987
	2,563,243	**1,413,053**

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