

2018

Annual Report



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① Authorities

Authorities

Province of Buenos Aires



Governor

María Eugenia Vidal

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Vice Governor

President of the Senate

Daniel Marcelo Salvador

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Chief of the Cabinet of Ministers

Cabinet Chief

Federico Salvai

Banco de la Provincia de Buenos Aires

Board of Directors:

TITLE	NAME	APPOINTMENT DATE
President	CURUTCHET, Juan Ernesto	1/1/2016
Vice President	PEREZ, Carlos Antonio	1/18/2016
Director Secretary	RODRIGO, Diego Oscar	12/10/2013
Director	BIONDI, Mario	1/18/2016
Director	HUGHES, Felipe Martín	1/18/2016
Director	MEONI, Mario Andrés	1/18/2016
Director	GARCIA, Andrea Fabiana	6/16/2016
Director	DI ROCCO, Eduardo Luis	6/16/2016

General Management:

TITLE	NAME
General Manager	ALONSO, Daniel
Finance Deputy General Manager	FRANDESCANGELI, Néstor
Marketing and Loans Deputy General Manager	LASALA, Juan Agustín
Business Development Deputy General Manager	DIZ, Gonzalo
Legal Affairs and Infrastructure Deputy General Manager	CASANOVAS, Marcelo
Technology Deputy General Manager	AVILA, Marcelo Fernando
Commercial Network and Business Support Deputy General Manager	DARDUIN, Mariano
Administration and Resources Deputy General Manager	PASQUALINI, Claudio



② Annual Report

Message from the President



The year 2018 was marked by deep changes in technological investment. This enabled the Bank to avoid difficulties to strengthen its role as the development bank of the people of the Province of Buenos Aires. It mainly focused on small and medium size enterprises and the agro-industrial sector and also on the offer of quality products and benefits to its customers.

In a complex scenario for SMEs, Banco Provincia led the credit assistance process for working capital with interest rates significantly lower than the average rates prevailing in the market and granted loans for more than \$88,000 million to such sector.

Through a clear definition of priorities and in line with the Provincial Government's political vision, the Bank increased the SMEs' participation in its credit portfolio. In 2018, more than seven out of each ten pesos in loans to the private sector

at national and regional levels. Financing was granted to micro-entrepreneurs who could expand their activity and improve their quality of life.

We affirmed the conviction of promoting access to housing by granting 6,665 mortgage loans. In spite of the rise in interest rates, Banco Provincia kept its UVA -adjusted mortgage loans unchanged throughout the year.

Again in 2018, we took the most important marketing action of the financial system by offering a 50% discount in supermarkets. This benefit was used by more than one million customers and surpassed 3.5 million transactions.

This action also implied an important benefit for the Bank due to the increase in the number of issued and activated debit and credit cards. Thus, for the first time, we exceeded 1 million active Visa credit cards.

Today we are a more efficient Bank thanks to the Administration's effort, which not only helped reduce process deadlines but also successfully absorb the costs derived from the reform 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).

Banco Provincia showed a positive operational result, without taking into account the \$6,243 million revaluation of property, plant and equipment. This result is even more relevant since it was achieved not only in the context of the reform to the Retirement and Pension

Fund, but also in a year marked by monetary restrictions and increased minimum reserve requirements, which impacted on liquidity and profitability.

Likewise, in 2018 a large portion of the debt owed by the Province to the Bank was regularized, even that incurred under previous administrations. More than \$15,000 million corresponding to the 2012-2017 period was reimbursed.

In three years, the provincial debt to the Bank, equivalent to three times the financial institution's net worth, was reduced to less than one time the Bank's net worth. In such period, the Bank quintuplicated its net worth. Thus, during 2018 fiscal year, the Net Worth/Net Assets ratio reached 8.46%, the highest figure in the last ten years.

This debt reduction also enabled us to work on the compliance schedule agreed with the Central Bank, pending since 2001 (17 years). Although capital market conditions were affected by the significant outflows of funds from emerging markets, we are the leading bank in debt securities issuances in the local market. Likewise, we were the first bank to issue UVA-adjusted securities.

We have very interesting challenges ahead. The Bank is healthy and ready to redouble its prominent role in the financing of production, housing and consumption upon the improvement of general market conditions.

In 2018, significant progress was made in technological innovation and processes. Placements through digital channels doubled. Consumer loans fully applied through electronic platforms increased from 29.8% in 2017 to 61%. During 2018, 12 branches were totally refurbished and by the end of the fiscal year 40 works were being simultaneously executed, an unprecedented event.

Likewise, the documentation necessary for the integral refurbishment of other 73 branches

was prepared. This will allow the call for public bids with start and end dates scheduled for 2019-2020.

The goal of this administration is to promote financial inclusion, life quality and employment for the people of the province, facilitating credit access oriented to social development and financial assistance for small and medium size enterprises.

In a difficult year, Banco Provincia showed all its potential to assist the most vulnerable sectors and developed products that clearly prove that a public bank may stay at the technological frontier, offering quality services and attractive promotions to its customers.

Looking towards the Bank's Bicentennial Anniversary, we will improve investment to maintain Banco Provincia's leadership, with the purpose of enlarging the number of customers so that every day more people of the Province of Buenos Aires choose us as their bank.

Juan Curutchet

"The Bank is healthy and ready to redouble its prominent role in the financing of production, housing and consumption."

(71.5%) were destined to this segment. Such indicator confirmed the growth path showed in 2017 when 66% of credits were destined to SMEs.

With an approach oriented to the development of the people of the Province of Buenos Aires, we surpassed the 200,000 microcredits milestone in a joint work with Provincia Microempresas, a benchmark and leading company in this sector both

International Context



Since the beginning of 2018, world economy was threatened by different sources of uncertainty. The total or partial materialization of fears regarding commercial strains and the tightening of global financial conditions brought about several volatility events in financial markets and changes in capital flows trends.

This scenario revealed the external vulnerabilities of certain economies, thus causing forecasts on activity level, trade and price of commodities to be thoroughly revised. Likewise, the performance of the Italian budgetary policy, the way in which the Brexit process will happen, and the uncertainty regarding the deceleration in the economies of China and the United States, which deepened during the last quarter, contributed to consider 2018 as a year marked by global uncertainty.

According to October IMF estimations, 2018 will end with a 3.7% global growth, a 0.2 percentage points (p.p.) revision with respect to the forecast made at the beginning of the year. Therefore, global economy growth kept the same figure as in 2017. The change was mainly explained by the worsening of emerging market prospects, especially of Argentina, Brazil, Mexico, South Africa and Turkey. On the contrary, forecasts on advanced economies improved due to the strong figures shown by the United States.

After achieving the maximum levels during the second half of 2017, the advanced economies partially lost the dynamism shown during the first half of 2018. In this regard, a 2% expansion is expected in the Euro zone by year end, 0.2 p.p. below 2017, as a consequence of the slower growth in exports, the political uncertainty and the measures applied to the industrial sector. The 2.9% forecast for the United States was 0.7 p.p. over the figure recorded in 2017 due to the fiscal measures adopted by President Trump to encourage economy.

Emerging and developing economies recorded less favorable improvements. In China, the projection of 6.6% for 2018 was 0.3 p.p. below 2017 due to the negative effect of the measures on tariffs adopted within the framework of the USA-China commercial war. The 2018 projection of 1.2% for Latin America and the Caribbean region decreased by 0.1 p.p. as against 2017, mainly due to a worse scenario projected for Argentina. The IMF pointed out that the higher prices of raw materials continued supporting exporters. The oil price showed a 31.4% variation by year end and the rest of raw materials recorded a 2.7% variation despite the reduction in forecasts due to a lower oil demand and also to the expected reduction in the demand of non-energy commodities.

As a result of the strong US labor market, the reaffirmation of inflation within the agreed goals and the sound data on growth, during 2018 the Federal Reserve Board (FED) maintained a process of monetary normalization and even slightly tightened it, moving from three projected increases at the beginning of the year to four effectively recorded. This caused an improvement in the return of 10-year term US bonds, which surpassed the 3% psychological barrier by the end of November and strengthened the US currency.

In this sense, the increasingly belligerent commercial relationship between China and the USA that led to forecast a 4.2% increase (1 p.p. less than the figure recorded in 2017) in the volume of goods and services globally transacted, also strengthened the dollar currency by 4.4%. This situation interrupted the downward trend observed since 2017 when the US currency fell by 10%. Therefore, unlike 2017, portfolio flows strongly dropped during 2018, thus materializing the risks on the economies which considerably need external financing.

Domestic Context

In 2018, a combination of several adverse effects made the recovery process of the Argentine economy come to a stop. The change in the international context and the adjustments in monetary policy caused the close of international debt markets that affected national public credit. This situation was worsened by an important drought that negatively impacted on agricultural production. Thus, all economic indicators deteriorated as against 2017.

In this context, changes on monetary and fiscal policies were introduced with the purpose of balancing both external and fiscal accounts. The new policies were formulated after the agreement with the IMF, which guarantees public debt financing. A program of monetary aggregates aimed at limiting inflation was established, thus suspending the inflationary goals schedule. In fiscal terms, an expense adjustment schedule was arranged, mainly in public works and subsidies. This was supplemented by the introduction of new taxes on exports.

During the first nine months of 2018, the Gross Domestic Product (GDP) in real terms fell by 1.4% y/y and contracted by more than 2% by the end of the year. This behavior was strongly influenced by the negative impact of drought (especially during the second quarter) and, later, by the exchange turmoil (mainly during the third quarter). The good dynamism shown during 2017 both in consumption and investment declined. Particularly, private consumption fell due to the drop in real income and the deterioration of credit conditions (mainly affecting durable consumer goods), while public consumption reduced even more due to the fiscal consolidation process. Investment shrank as a consequence of a lower growth expectancy and higher uncertainty. The contraction of the agricultural sector should be highlighted;

GDP variation reduced almost 2.0 percentage points after dropping 19.6% y/y during the first nine months of 2018. Industry and Trade were affected by the deterioration in family consumption and in the exportable agricultural offer. Only certain services maintained the dynamism in supply.

Due to the lower economic activity, the growth in the number of private sector jobs declined (with y/y drops since August 2018) in a context in which formal employees' nominal wages increased below inflation levels.

The disinflation process stopped in 2018 due to the impact on prices of exchange rate fluctuations, and, to a lesser extent, to the value updates of regulated goods and services. Thus, the Consumer Price Index increased by 47.6% at the national level, 24.8% above the previous year, while core inflation more than doubled the 2017 levels (47.7% vs 21.1%).

Exports improved the 2017 performance due to the good behavior of Fuels and Energy, Manufactures of Industrial Origin (MIO) and Manufactures of Agricultural Origin (MAO), which offset the drop in Primary Products derived from the contracted external demand. Imports slightly fell and reversed the 2017 two digit expansion, thus reflecting a lower local absorption. Investment-related items (capital goods) and durable consumer goods (vehicles) showed the most severe drop. Consequently, trade balance reversed, moving from a US\$8,309 million deficit in 2017 to a US\$3,820 million surplus in 2018.

Throughout the year, the Administration kept a prudent fiscal policy by accelerating the reduction in fiscal spending. During 2018, spending growth was below income increase. This helped reduce the deficit level and over fulfill the original target. Thus, primary



deficit reduced from 3.9% of GDP to 2.7% of GDP in 2018. The improvement was due to a higher tax burden and a significant control of fiscal spending, partially derived from the adjustment of public services tariffs, the lower capital expenditure and the reduced transfers to provinces.

Due to the impact of interest rate fluctuations on the currency value and the cost of living, the BCRA had to tighten its monetary program. In this context, financial brokerage grew over inflation. Unlike 2017, this dynamism was boosted by the greater increase in deposits, since credit to the private sector rose at a slower pace. The fall in document discounts and the slowdown in pledge, consumer and mortgage loans should be highlighted.

Our Misssion

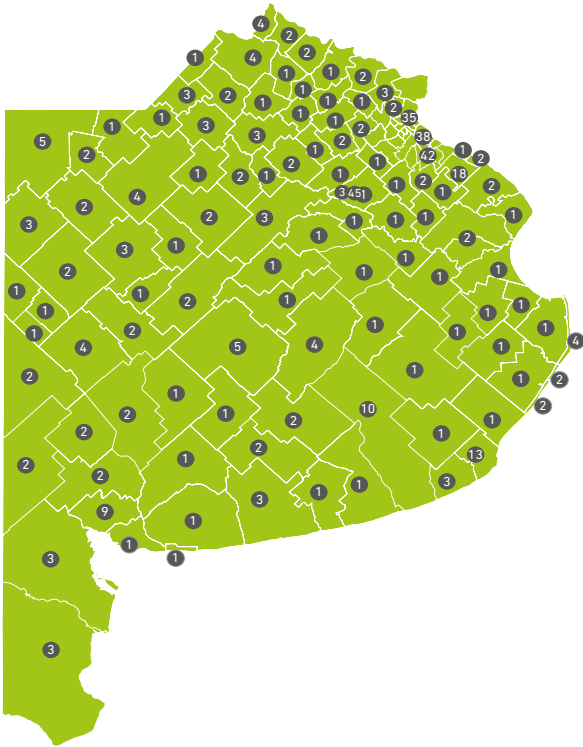
We are the bank of the people of the Province of Buenos Aires.

Our mission is to be the bank that promotes the development of the Province of Buenos Aires and its people. We believe that the progress of each inhabitant contributes to build a stronger Province and this is the starting point to improve the quality of our lives.

Our commitment:

- To promote** equal opportunities and the financial inclusion of all the provincial people.
- To encourage** the development of productive sectors of the province of Buenos Aires, offering financial solutions.
- To support** SMEs as the driving force of the economy, and the agricultural sector as the basis of our production system.
- To facilitate** the progress of all provincial inhabitants through financial tools to make their dreams come true.
- To offer again the opportunity to acquire your own home.**
- To provide** financial assistance in our role as a **social and public bank** to municipalities, social and sport clubs, regional economies and the culture sector of the Province of Buenos Aires.

The Bank is close to all provincial inhabitants.



Present in
421
branches

- 415 premises
- 1 Head Office
- 5 mobile banks

10,341
employees

Our history

The history of Banco Provincia started together with our identity as country and society. In its role as a public bank, the Institution has adapted and modernized to meet the changing needs. During its existence of almost 2 centuries, the Bank has accompanied the development of the provincial people, building with them a path to prosperity. A history that is written day by day.

The Bank, founded in 1822, was the first financial institution to operate in Argentina and Spanish America. It has a valuable experience of 196 years and a long-term vision based on economic sustainability and innovation, which enable the Bank to improve the quality of products and services.

Banco de la Provincia de Buenos Aires, as a state-owned Bank, is a self-administered public institution, the origin, guaranties and privileges of which are set forth in the Preamble and in Sections 31 and 121 of the National Constitution, in the National Law No. 1029 of 1880, and in

the Provincial Constitution and laws. It started operations under the name of Banco de Buenos Aires, and was the first Argentine corporation of its kind with state promotion and private capital. Throughout its history, the Bank has maintained a strong commitment towards the development of the Province of Buenos Aires and its people. **It granted the first-ever mortgage loan in the country (1856) and launched the first loan facility for the agro-industrial sector (1941).**

Banco Provincia inaugurated its first three branches in 1863 and, afterwards, has consolidated as the financial institution with the greater presence province-wide with more than 421 business units. As part of the commitment to be close to people who need support, the Bank launched its own ATMs network in 1989. Nowadays, it is the most extensive network within the provincial territory with 1,749 terminals operating even in places where other banks are not present.

A Bank fostering the development of the Province of Buenos Aires and its people

Our forward-looking strategy

We are executing our strategic plan based on five pillars: improve service quality, boost financial inclusion, promote digital culture, develop human capital and maintain sustainability.

This vision aims at strengthening the Bank in view of the current new challenges so as to maintain its leading social role, accompanying the entrepreneurial spirit and dreams of all the people of the Province of Buenos Aires. In this sense, we made progress on the following strategic goals:

Streamlining of customers’ processes

We are changing our way of working, introducing dynamic methodologies and team work. At the same time, we are strongly working on the reengineering of processes in order to streamline them and to fulfill customers’ requirements and needs. In this way, we are strengthening our commercial capabilities by introducing tools that will ease the replacement of the current manual, handmade and decentralized operation. They will allow to design scenarios for each customer profile, manage its investments, arrange its credit ratings and quote and settle tailored made transactions.

Omnichannel strategy

We channel our efforts towards a Bank available at every moment and in different integrated platforms. Therefore, we are redesigning the Banca Internet Provincia (BIP) and BIP mobile platforms so as to offer a better experience to the user. Additionally, we enlarged the functionalities of our call center by introducing new actions on telemarketing, customers’ activation, fidelization and retention, welcome and “product package” campaigns.

Integral management

Our challenge is to anticipate the needs of our customers in order to arrive at the right moment with the right offer and through the more convenient channel, accompanying them in each stage of life.

Digital transformation

The challenge is to think our products from a digital perspective and to generate synergy with our relational attention model. We have incorporated 500 BIP Terminals through which our customers may operate and use home banking services on site. These terminals will soon arrive to all business units. We have also acquired more than 5,000 PADs that will allow to manage and digitalize all printed forms currently available in business units. We are making considerable efforts to have 100% digital customers, enabling on boarding from a mobile application. We have developed a digital credit file so that all companies may have their digital rating. Likewise, we have designed an application to localize benefits and implemented a new foreign trade system.

Cultural change

We are modifying structures in central areas so as to make them more functional, adding response capacity and dynamism in the decision making processes. Additionally, we have implemented new communication channels, adapting ourselves to the new technologies.



A Bank strengthening its position



Banco Provincia tackled multiple challenges in 2018 and managed to come out stronger from them. In a more efficient context, positive results were obtained in 2018 within a framework of monetary restrictions and higher minimum reserve requirements, which negatively affected the banks' profitability.

The debt owed by the Province to the Bank was finally settled, even that incurred under previous administrations, totaling more than \$15,000 million in the 2012-2017 period. Such debt did not bear interest. The provincial debt to the Bank, equivalent to three times the financial institution's net worth, was reduced to less than one time the Bank's net worth. Thus, in 2018, the Net Worth/Net Assets ratio was 8.25%, the highest ratio attained in the last ten years. These achievements helped us progress with the 2018-2023 Compliance Schedule submitted to the BCRA, whose compliance was pending since 2011.

In a context of unstable exchange markets, inflationary pressures, high interest rates and the ensuing contraction of the economic activity, the Bank has implemented several loan facilities at preferential rates in order to assist the most vulnerable sectors: families and SMEs.

In a framework of financing deceleration, the Bank's liability management policy was oriented to consolidate funding sources so as to ensure business predictability. Excess resources were allocated to monetary regulation instruments, thus recording high levels of excess liquidity. Consequently, in 2018, the Bank recorded again a sustained growth in total deposits. When consolidated with the Bank's foreign branches, total deposits reached 59.9%, with a 43.5% and 124.1% expansion in domestic and foreign currency placements, respectively.

Public Sector performance significantly expanded by 83.9% y/y while Private Sector rose

50.3%. Time deposits were the most dynamic. During 2018, the deposit funding structure got worse. At year end, the incidence of time deposits and demand placements in the Bank's funding structure was 43.3% and 56.7%, respectively, as against 40.5% and 59.5% in the financial system. Private sector placements showed an increase in all their captions when compared with 2017, standing out the expansion of time deposit balances (68.4% y/y). Savings account balances noticeably expanded (42.2%) while those in checking accounts showed moderate

increases due to lower transactional needs and the higher opportunity cost of money. By year end, the share of total deposits in the domestic market had a marginal backward trend, moving from 10.3% in 2017 to 10.0% at December 2018.

Though capital market conditions were affected by the significant outflow of funds from emerging markets, the Bank succeeded in the issuance of debt securities, standing as a leader in the issuance of this type of securities in the domestic market.



Corporate Banking

Focusing on Customers, the Bank has decided to prioritize the needs of provincial SMEs, orienting its management model to the achievement of the following goals: Service Quality, Profitability and Technology.

In 2018 and in a context of a sharp economic contraction, the Bank granted loans for \$161,832.5 million. Almost 76.3% of the total loaned amount was destined to the financing of companies, out of which 71.5% were SMEs. This percentage is even more relevant when considering the 66% recorded a year earlier.

Loans to SMEs



In view of the difficulties posed on SMEs by the 5% annual drop in industrial production recorded in 2018, the Bank granted loans to this sector for over \$88,000 million destined to working capital improvements, investments, foreign trade facilities and document discounts. In this way, more than 60,000 companies were financially assisted. More than 265,000 SMEs carry out their businesses in the province of Buenos Aires, offering employment opportunities to 4.4 million provincial inhabitants. This figure accounts for 75% of private employment in the following lines of business: trade, services, agricultural and industrial activities.

In order to ease the access to financing of the most vulnerable companies, promote the development of the most dynamic sectors and reduce the environmental impact of industrial processes, the Bank has launched several Lending Programs: *Desarrollo Pyme*, *Pyme Textil y Calzado*, *Pyme Digital*, *Pyme Audiovisual*, *Parques Industriales and Provincia Verde*. It has played an active role in the programs of the National Fund for Productive Development (*Fondo Nacional de Desarrollo Productivo - FONDEP*). This has resulted in the granting of over \$16,000 million for transactions involving the discount of deferred payment checks at preferential rates.

The Bank has created a new management within its commercial area. It is specially focused on the development and implementation of more efficient financial products so as to satisfy customers' current needs in line with the new commercialization models.

A team entrusted with the analysis of the real estate sector was incorporated to the SME Management. This action resulted in the granting of a financing facility especially oriented to address the needs of this sector.

The Bank has been present in the main provincial industrial centers and has increased the number of commercial banking officers especially trained to ease corporate access to the financial system and provide customized advice.

A new UVA (acquisition value unit)-adjusted consumer loan facility for the acquisition of equipment has been designed for professionals, merchants and taxpayers under the simplified tax regime. Likewise, two foreign currency financing facilities, with interest rates not exceeding 4% per annum, have been offered.

Loans to the Agro-industrial Sector



The Procampo Card kept on consolidating as the credit card for the provincial agricultural producer.

Over 1,800 special agreements were subscribed with 805 input suppliers and transactions for \$8,600 million were concluded. The commercial relationship with YPF was strengthened through the implementation of agreements for the purchase of fuels and related products at 0% rate and a 210-day term. Transactions under these agreements amounted to almost \$660 million.

The Bank had an active presence in the main fairs and exhibitions (e.g.: Expoagro agricultural fair and Palermo Rural Exhibition) as well as in

cattle auctions where commercial agents played an active role providing advice to attendants and offering the Bank's products and services.

During 2018, the Province was affected by a severe drought that caused a considerable loss of crops, especially coarse grains. In turn, this situation derived in greater cattle raising costs as the result of land degradation. Like in previous years, the Bank kept on providing assistance to affected agricultural producers through lending tools involving the extension of maturities and new loans for working capital improvement (\$800 million).

Loans to the Corporate Sector



The portfolio balance destined to economic groups, extra-large, large and medium enterprises located in Argentina increased 27.3% p.a., totaling \$27,781 million at December 2018 (36% of total Corporate Sector).

In 2018, loans to this sector amounted to \$33,334 million (27% of total Corporate Sector). Throughout the year, the Bank, through its Commercial Network, has loaned \$1,616 million to the Corporate Sector.

Loans for the financing of Foreign Trade



In 2018, loans for \$22,794 million were granted for the financing of foreign trade. A special focus was laid on SMEs in a context of greater competitiveness resulting from the introduction of new technologies into our services.

The new COMEX (foreign trade) management system was implemented and the web

functionalities were enhanced. The *Pyme Productivo Primera Exportación* product was launched. It is intended to provide the necessary tools for engaging in the export activity while developing and promoting productive activities.

A Bank reinforcing its development role

Important steps were taken to reinforce our development role as provincial public bank.

Social Microcredits

Our goal is to stand close to provincial workers through products, benefits and tools intended to maximize their efforts, support their financial inclusion and development as well as improve their quality of life and that of their families.

We have continued working with Provincia Microempresas, a benchmark and leading company in this sector both at national and regional levels. Currently, this Company provides services in 93 Bank's branches and, since 2009, has granted 208,000 microcredits to more than 90,000 provincial inhabitants for \$6,000 million.

In 2018, and despite the economic strain, 31,486 loans were given for a total of \$1,801 million, a 33.9% y/y rise (\$456 million). Thus, the Bank's lending portfolio totaled 38,600 customers, up 11.4% as against 2017.

Forecasts for 2019 predict the granting of 40,000 loans for \$2,710 million, reaching a total portfolio of 48,000 customers. As the result of the methodological reforms successfully introduced in 2018, Provincia Microempresas was invited to share its good practices in a microfinance workshop organized by Banco Nacional de Costa Rica.

Mortgage Loans

In furtherance of the institutional premise to offer provincial inhabitants the opportunity to purchase their own homes, during 2018, the Bank granted \$8,385 million through 6,655 UVA-adjusted and peso denominated mortgage loans.

Throughout 2018, over 50,000 enquiries were received and more than 8,000 applications were entered. Almost all loans were granted during the first half of the year as they resulted from the applications entered in 2017 which were finally executed and signed during such period.

In June 2018, the Bank implemented a Mortgage Loan Monitoring system in order to register all loan applications. Such system takes into account the new service processing cycle defined in April 2018 which is intended to prioritize and speed up the processing of loan applications.



Benefits

To be near to the families most in need, we have given thousands of provincial inhabitants the possibility to enlarge their purchasing power through the acquisition of basic products at a discount.

The 50% discount benefit in supermarkets is a Banco Provincia trademark. Near 1 million people have benefitted from the 50% discount in supermarkets. A total of 3.5 million transactions were concluded in almost 1,800 markets belonging to the 13 participating supermarket chains, thus offering a wide coverage both in the province and city of Buenos Aires.

About 70% of customers taking advantage of this promotional campaign had low or middle-income levels (under \$30,000/month). Average purchases amounted to \$1,800. Almost 70% of beneficiaries were retirees and public servants such as teachers, municipal employees, police officers, judicial and health care workers.

A more dynamic and efficient Bank

Thanks to the reengineering of critical processes introduced in 2018, the operative workload in business units was reduced by 50%, thus streamlining the Bank’s resources and improving customer service.

Personal Banking

Banco Provincia has maintained its absolute leading role in Consumer Loans, making provincial inhabitants’ dreams come true.

Loans to individuals reached \$38,283.6 million. Out of such amount, \$25,638.4 million was granted under consumer loan facilities, where the Bank leads the segment with a 14.7% share in the financial system. Loans through digital channels totaled \$15,617 million, accounting for 61% of total consumer loans. This figure is even more relevant when considering that, in 2017, consumer loans through digital channels only accounted for 29.8%. This way, we have managed to double the digitalization percentage and, in order to offer customers

more and better functionalities every day, we have continued migrating our pre-qualified customers from the traditional to the digital channel.

A special benefit was created in order to offer customers the opportunity to buy new TV sets before the FIFA World Cup held in Russia: 50 interest-free installments in the purchase of Led and Smart TV sets with MasterCard credit cards in participating merchants. With this promotional campaign, the Bank’s intention was to place new MasterCard cards and increase their use while offering an excellent benefit to its customers.

prepared. This will allow the call for public bids with start and end dates scheduled for 2019-2020.

- The Bank has developed the infrastructure necessary for the installation of 660 smart queue management totems, 1,200 professional monitors and 880 intelligent self-service terminals. Such terminals are equipped with bill/check recognition capabilities; they also allow on-line cash deposits into own or third-party accounts, check deposits, account movements and balance enquiries, payments of credit cards, transfers, deposits into court-ordered accounts and placements/renewals of fixed term deposits.
- In order to speed up processes and minimize the unnecessary use of paper, the amount of forms involved in everyday transactions was considerably reduced, which also resulted in a faster response time. The following savings were made in 2018: 400,000 printed sheets,

Service Quality

In 2018, the new Infrastructure and Services Management focused its efforts on continuing the most ambitious Works Plan in the Bank’s history which began in 2016. With a total investment of \$5,200 million until 2020, the Bank expects to refurbish more than 400 customer service points located throughout the province and city of Buenos Aires.

- During 2018, twelve business units were totally refurbished: Tribunales Mar del Plata, Lomas del Mirador, Ensenada, San Vicente, Roque Pérez, Tribunales Morón, Chivilcoy, Monte Grande, Rafael Calzada, Avenida Calchaquí, Villa Tesei and Alejandro Korn. In addition to the above, and as an unprecedented event, forty works have been executed simultaneously, and they will continue during 2019.
- The documentation necessary for the integral refurbishment of other 73 business units has been



6,000 workload sheets and 500,000 customers’ signature forms.

- We have optimized critical processes such as the new credit card activation process in the BIP Sucursales system or the simultaneous application for savings accounts and debit cards. The implementation of new functionalities such as the “Inventario de Tarjetas” (cards inventory) module helped save a lot of clicks, screens and automatic form fillings and also contributed to a better task management.
- With respect to mortgage loans, better processes and the implementation of a new monitoring system helped reduce loan application average times from 140 to 90 days.
- The new channels policy is enabling us to expand the capacity of all channels while increasing transaction volumes. In 2018, 830,000 customers were serviced through our Call Center and 1,985,000 income calls were received. Customers’ satisfaction level reached 96%, thus showing a sustained improvement in service quality.
- In order to face the business challenges ahead and optimize the operation of the Bank’s systems, we have upgraded the processing platform supporting the SUR system. To that end, the mainframe computer was updated to the latest version, thus increasing processing capabilities by 42%. Faster processing speed results in a better performance of the SUR system and the BIP platform which, in turn, eases the flexible and dynamical fulfillment of the business needs. Customers using our digital channels increase every day. The following indicators evidence such evolution: in the January 2016/June 2018 period, BIP platform users doubled while BIP mobile users tripled. On average, 570 and 920 daily incorporations to the BIP mobile and BIP web platforms were recorded in 2018, respectively. At year end, BIP mobile users totaled 689,017, a 14.3% share of our total customer portfolio. In its more than five years of existence, the BIP platform has 1,721,888 users (36%). In January 2016, the platform could support 3,400 users operating simultaneously; currently such figure amounts to 10,800.
- An agreement was signed with Nación Servicios destined to 365,000 beneficiaries of the Hogar program and the Progresar scholarships. The agreement provides for the

collection of the pertinent benefits through PIM, the mobile purse developed by the technological solutions company of Grupo Banco Nación. Thus, people collecting such benefits through Banco Provincia may voluntarily decide to receive their payments through the PIM application, only by dialing *456# from a cell phone. This tool enables the use of the cell phone as a means of payment in participating merchants. Users can transfer money, recharge their mobile account and withdraw cash funds. No charges are involved and it is not necessary to hold a bank account. This agreement intends to ease the collection of Anses benefits, promote the use of a new, simple, free of charge and secure means of payment, and reduce workload in business units and ATMs.

- We manage the largest ATM network in the Province of Buenos Aires, with 1,749 installed terminals in 135 districts: 723 ATMs are located in the Buenos Aires Metropolitan Area, 130 in the city of Buenos Aires, 699 in the interior of the province and 197 in the Greater La Plata agglomeration. During 2018, 122 new ATMs were installed. Out of such amount, 84 terminals were replaced, thus increasing our ATM network by 38 units.
- At the beginning of 2019, we will be inaugurating our first commercial location under a new format: *Espacio Bapro*, in the city of Mar del Plata. Due to our status as a public bank and our leading spirit, we stand as a key player within the banking industry. This condition urges us to take part in the evolution of the digital culture and its impact on the relationship with customers. This proposal comes to satisfy the needs of customers requiring more customized services, in a comfortable environment favoring a more dynamic service and in multipurpose locations with digital access.

Digital Culture

The cultural change is a mandatory requirement to foster this new form of business. Both customers and employees get involved in each project and act independently and dynamically. In this way, more transparency is offered and more adaptability and permeability are gained in an effort to optimize the Bank's products and processes.

The dynamic methodologies under way help maximize teamwork, offer new product versions with improved functionalities in short cycles, early detect possible diversions or needs for change, and generate value.

The service offered to our customers and the commitment of our staff represent two invaluable assets. They are the pillars on which the current transformation is grounded.

Part of the challenge is understanding the dynamic of an ever-changing environment where customers occupy the center stage, adopting market-tested methodologies which are essential to maintain the Bank's traditional innovative characteristics.

Institutional Banking

In view of the importance of municipalities and provincial agencies to the Bank, steps were taken to build new relations and ratify our support and assistance.

As a result, new incorporations have been achieved to the various alternative collection services (allowing migration to electronic channels) as well as to our payment services such as: Payment to Suppliers, Payment of Benefits and Fees, and the Copres System for official vehicles which can not only be applied to the purchase of fuel with prepaid debit cards but to the payment of car maintenance services. These services are aimed at replacing the use of checks for settling debts, with the ensuing reduction in transactions at cash desks, and enabling the owner of official vehicles to have a detailed control of expenses.

We have promoted our loan facilities for the financing of Public Works and Production and Financial Inclusion destined to the acquisition of road machinery and vehicles in general. At December 31, 2018, 97.16% of the Bank's portfolio balance accounted for facilities for the financing of Production and Financial Inclusion.

The PROCAMPO card was incorporated as a means of payment of municipal taxes, especially the road tax imposed on agricultural producers. Similarly, the PACTAR card was incorporated as a means of payment for municipalities, allowing them to carry out transactions under favorable conditions according to agreements already existing and those to be signed in the future.

With respect to payment of retirement/pension benefits and social plans, progress was made in the migration of benefits collected at cash desks,

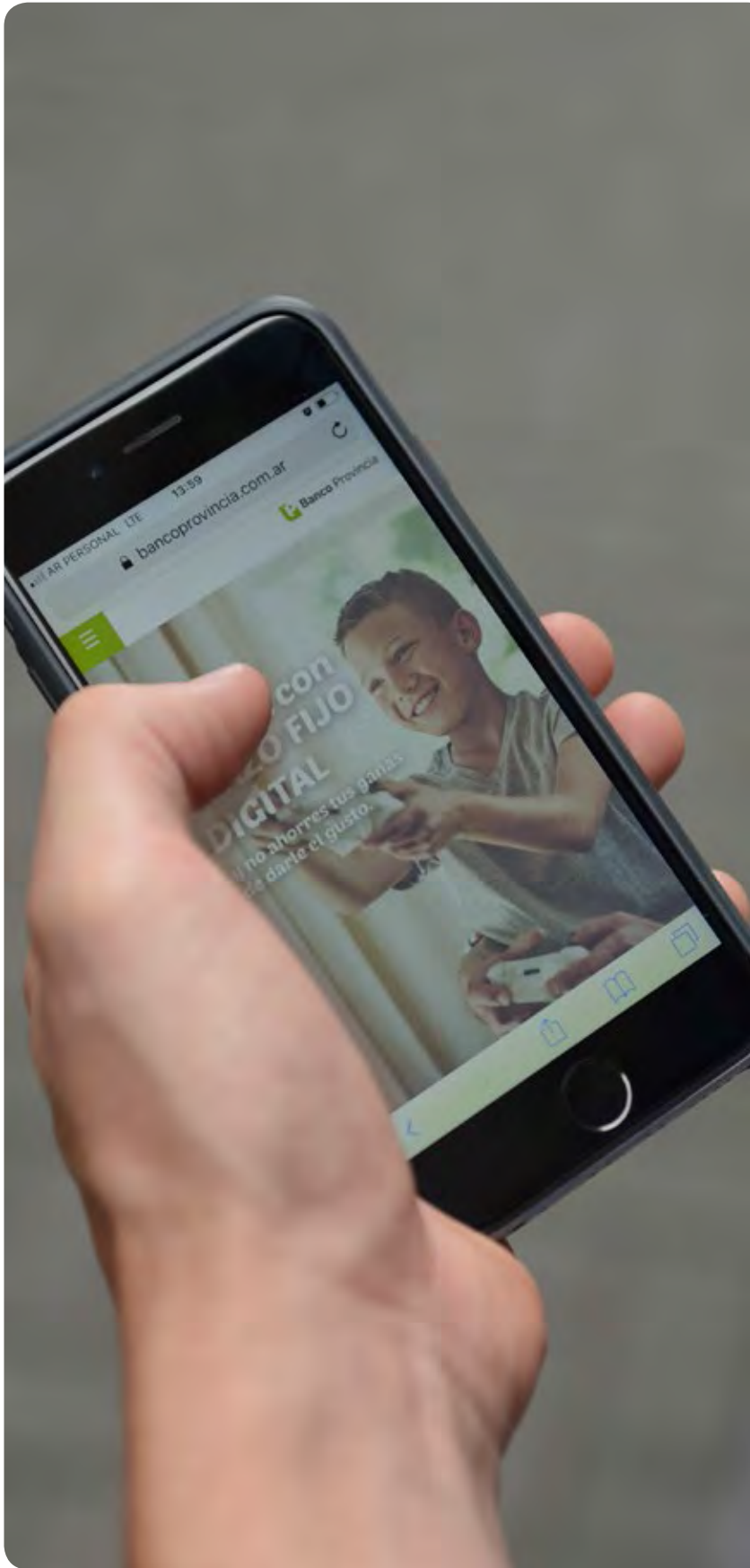
encouraging the use of ATMs for cash withdrawals as well as of cards in Visa participating merchants.

Thus, throughout 2018, 16 loans for over \$103 million have been granted to municipalities and the balance of the public sector loan portfolio stood at \$647 million distributed among 51 municipalities. During 2019, the Bank will continue assisting local governments with the purchase of equipment destined to provide better services to their inhabitants.

The Institutional Banking Management held several meetings with representatives of 135 provincial districts in order to introduce the new *BIP Institucional* digital platform as well as other products (e.g.: the Procampo and Pactar cards) which have been designed to ease local governments' management.

The *BIP Institucional* platform is running in trial mode with the General Treasury of the Province of Buenos Aires and a municipality. The second stage will cover the launching of the *BIP Móvil Institucional* platform. This application will allow municipal officers to operate with the Bank from their smartphones.

The general goal is to improve the relationship with municipalities and encourage the migration of collection and payment services to alternative channels so as to reduce the operative workload at business units.



A more innovative Bank

As a result of today's fast-changing business world, organizations, more than ever before, face the need to adapt their business models and change traditional methods so as to anticipate customers' expectations and requirements.

Business Development

The Bank has incorporated new technologies to provide integral services to customers and implemented its digital transformation.

In the *BIP Sucursales* platform, the "Incorporation of Merchants" module was activated. The new functionality allows the incorporation of merchants and stores to the Visa, Cabal and MasterCard networks simultaneously and with minimum data requirements. It also makes possible to request physical payment terminals.

The "product package" was developed to meet the growing demands of our customers, who will be able to acquire it in a simple way through our Banca Internet platform. Our BIP pre-qualified customers will be able to acquire this package 100% online and also inform the address for delivery of cards to make the process more efficient.

Almost 18% percent of product packages was offered to retail customers not collecting their salaries through the Bank; this way, we keep on growing our portfolio. Among those customers with salary accounts with the Bank, mentioned should be made of teachers and private sector employees, who acquired 14% and 13% of our packages, respectively. Thanks to the "product

package" program, we were able to place over 360,000 news products: 106,253 MasterCard credit cards, 106,485 checking accounts and 89,064 dollar-denominated savings accounts, thus increasing the cross selling ratio by 193%.

We kept on working hard to offer the best products to our customers and meet their expectations.

This was the result of the joint work of many areas of the Bank aimed at creating Digital Culture. This enabled us to offer an improved customer service and increase the volume of product sales, and consequently, profitability.





Financial Banking

In 2018, the Bank maintained a leading role in Capital Markets.

Though local market conditions were highly affected by substantial outflows of funds from emerging markets, in April 2018, the Bank launched its fourth Debt Securities issue. With offers surpassing \$8,570 million and final placements for \$6,000 million, it turned out to be the second largest corporate issue in the year. Such issue involved three Debt Securities: Class VIII at 48 months at Private Banks Badlar rate plus a 3.74% spread, Class IX denominated in UVA at 36 months at a 4.50% rate and Class X at 12 months at a 25.80% fixed rate. It is worth mentioning that in April 2017, the Bank had been the first issuer of a Debt Security denominated in UVA. After the April 2018 issue, the Bank took the lead in this type of instruments with an issued amount exceeding \$2,800 million.

Between 2016 and 2018, the Bank issued Debt Securities for \$10,371 million and ranked fifth among local corporate issuers. This performance, which ratifies investors' confidence, helped continue with the diversification of funding sources and improve the assets/liabilities ratio, thus contributing to enlarge the current loan supply.

Once again, the Bank consolidated its role as the main arranger and manager of Debt Securities in the provincial public sector. Its participation amounted to \$81,451 million, leading the issue of Provincial Treasury Bills and Debt Securities. The issue of the 7-year term Peso-denominated Bond of the Province of Buenos Aires for \$30,000 million stood out and recorded an outstanding participation of local and foreign investors.

We kept on participating in the issue of corporate debt, with a remarkable performance of Corporate Bonds and Financial Trusts of Newsan S.A. and Syngenta S.A., and in important syndicated loan transactions.

In 2018, the Bank was re-awarded the ISO 9001-2015 Certification for the processes related to the custody of 1822 Raíces Mutual Funds. The Argentine Standardization and Certification Institute (Instituto Argentino de Normalización y Certificación-IRAM), together with IQNet Association, have certified that, one year after the implementation of the quality management system, the Bank was compliant with the international standards.

Regulatory Compliance

In line with the Board of Directors' commitment to take actions to strengthen the institutional quality, the Bank signed a Cooperation Agreement with the Institutional Strengthening Bureau of the Province of Buenos Aires. Felipe Hughes was appointed as State Compliance Officer and the Regulatory Compliance area will act as technical advisors on the design and implementation of a Compliance Program.

The Bank has an ethics code and specific rules and procedures in force to prevent illegal actions by its staff or third parties. Mention should be made of the existence of procurement regulations, a risk assessment process, reporting channels and an internal investigation system with complainant protection. The purpose is to add value to the

system through an ongoing improvement process, under a risk-based approach, with the participation of all members of the organization and in line with an integral and holistic framework. In 2018, more than one thousand employees were trained in person on Ethics and Compliance.

Through a monthly indicator, the Regulatory Compliance area monitors the Bank's Compliance Culture, which currently is in line with the pursued strategic goals.

Heading towards the bicentenary of our institution, we will consolidate in 2019 our ethical values and make institutional strengthening a sustainable reality without overlooking business and customer's experience.

Risk Management

The Bank has in place a comprehensive risk management policy. It develops new strategies oriented to identify, measure, follow-up and mitigate risks in accordance with the best practices laid down by the Basel Committee and implemented by the BCRA.

The drafting and submission of a Capital Self-Assessment Report, the integration of risks with Grupo Provincia, the presentation of reporting regimes to the BCRA, the limits proposal and the preparation of Contingency Plans are its most significant tasks.

In 2018, a considerable volume of key data was reported to top supervisory officers, including regular reports related to the performance of the loan portfolio, early warning reports, liquidity monitoring reports and a set of key risk indicators. In terms of credit risk, the segments that compose the loan portfolio were reviewed in order to achieve a more specific risk management and an analysis of the pertinent variables.

In line with the regulatory changes introduced by the Central Bank, the interest rate risk management process was revised. The successive amendments to the minimum reserve requirements provided for by the BCRA required the readjustment in liquidity risk monitoring and the redefinition of action plans and both management and contingency limits.

Moreover, the Bank has continued its IFRS convergence process and the analysis and follow-up of risks associated with UVA credit facilities. For the purpose of improving the quality of datawarehouse information, historical data was incorporated and the risk datamart system was consolidated.

The organizational structure of Managements oriented to the recovery of past due debts was modified and a single Debt Recovery Management was created in line with an integral risk approach entailing the specialization and efficiency of the areas involved.

Institutional Communication

In 2018, we continued reinforcing the Bank’s position as an entity that fosters the development of the people of the Province of Buenos Aires through campaigns based on inclusion, closeness and progress.

The advertising strategy was oriented to offer an innovative benefit in the financial system: 50% discounts at supermarkets, which benefited over one million people during the year.

Under the *Mar del Plata te hace feliz* program, the Bank offered benefits in hotels, transportation, entertainment, restaurants, supermarkets and free and quality services in certain public beaches.

Almost 500,000 people enjoyed beach umbrellas, sun chairs, sanitary services, wifi, sports and entertainment in the Mar del Plata public beaches sponsored by Banco Provincia. Additional benefits were also offered in other towns of the Atlantic Coast.

Thanks to all these benefits, the number of debit and credit cards has increased and, for the first time, the Bank has surpassed one hundred active VISA credit cards.

We continued striving to make provincial inhabitants’ housing dreams come true. We were present at the most significant real estate events to promote our mortgage loan facilities, which led to an expanded provision of financing for a second consecutive year.

In order to be close to all provincial inhabitants, the Bank consolidated its brand presence in 135 provincial districts. We have developed a territorial communication plan focused on a broad branch network and closeness, enhanced participation in traditional media and geolocalized campaigns in social networks and digital media.

During 2018, the Bank was present in the main own and third-party Argentine events. Like in previous years, the Bank promoted over 100 cultural festivals with high impact on regional micro economies.

We were also present at the Expoagro agricultural fair and Palermo Rural Exhibition, the IDEA’s (Argentine Institute for Corporate Development) Congress, the Book Fair, the Argentine Institute of Financial Executives (IAEF) Annual Convention, the industrial parks exhibition (EPIBA) and the Economic, Finance and Investment Exhibition (ExpoEFI). Through our participation in these events, we came closer to prospective clients.



Human Resources

The Bank is undergoing a transformation process, strengthening human resources, redesigning its organizational structure to horizontalize it and implementing new agile and collaborative working patterns.

The Bank has 10,341 employees, 44.3% of the staff is composed of women, a percentage higher than that recorded in 2017 and 2016 (43.7% and 42.4%, respectively).

Our organizational transformation process is closely related to the market evolution. Human Resources has worked towards the **new organizational structure in business units and regional centers**, adapting the contents of the internal career to the requirements of the new functions, thus promoting the migration from a transactional to a relational model.

Under this new **conceptual framework, we have reinforced investment in compensation and benefits** and implemented **new collaborative working patterns**. This have enabled us to obtain organizational sustainability and greater development possibilities through a series of tools that help recognize the effort and value added to the business, ensuring internal fairness and external competitiveness.

On the premise that human resources are our most valuable asset, a new organizational structure of the Human Resources Management has been devised to offer better **service quality to the internal customer**.

For this purpose, we have optimized our processes with a **focus on digital** technology, adapted the **training contents** to the specific needs of the new functions and created new communication channels.

Visits to business units, breakfasts, surveys (for candidates, on environment, on agenda) and **meetings** have enabled us to identify and address problems.

These guidelines have been defined on the basis of the dynamism required by the business. They provide a **stimulus to each team** and promote the psychological and **physical welfare** of the staff.

The Human Resources area has organized the “Diversity and Integration” workshop. Focus has been made on the need to raise awareness on the three barriers to inclusion: architecture, communication and prejudices. Members of Human Resources with different disabilities have participated in the workshop and and share their experience with a view to improve staff interaction and avoid communication difficulties.

2019 Prospects

Expectations for 2019 indicate a more favorable scenario than in the previous year. However, the economic performance would still be quite unfavorable, uncertainty would persist and economic policy would maintain its contractive trend. The economic activity is expected to pull the country out of recession in the first half of the year as a result of the improvement of agricultural supply and a higher real exchange rate favoring exports. Salaries and social transfers would partially increase and will help improve expenditure levels.

At the international level, a new deceleration of growth is expected, mainly due to the change in the growth expectations of the United States. The lack of fiscal stimulus and trade wars predict a deceleration of economy in the medium term. Changes in asset valuation and interest rates were mitigated by the capital flows from shares to bonds, which were considered the top safe haven instruments. In this context, there was a calmness

in interest rate expectation; lower adjustments are predicted for the FED interest rate.

In early 2019, the loosening of financial conditions, the progress in trade negotiations within the framework of the 90-day truce agreed between the United States and China, and the pension and tax reforms announced in Brazil by president Jair Bolsonaro determined a trend shift in capital flows to Emerging Markets. Therefore, expectations on their economic performances are more optimistic. The growth expectations of our main trade partner, derived from the policies to be developed by the new administration, are likely to benefit our foreign sales.

Institutional Governance

According to the guidelines of Corporate Governance in Financial Institutions, the Bank issued its Institutional Governance Code in 2012, which is periodically analyzed and updated. It provides guidance on how the objectives of the Board of Directors and Senior Management are set and achieved.

It is intended to protect the interest of depositors and safeguard the effectiveness and security in business transactions in accordance with the prevailing rules and regulations.

In this sense, the purpose of the Institutional Governance, Ethics and Compliance Committee is to review and recommend the approval of appropriate policies, ensuring that the Bank has the adequate tools for adequate decision making and compliance with regulations.

In the latest updating, both the Committee and the Board of Directors asserted that the institutional Governance Code implemented by the Bank fits its profile, complexity and importance.

Thus, Banco Provincia is in line with good governance practices, and, according to its Transparency Policy, the Institutional

Governance Code and other codes are publicly available on the Bank's website.

In accordance with the standards of the BCRA, the Bank has several committees under the supervision of the Board of Directors: Auditing Committee (Communication "A" 5042), IT and Systems Committee (Communication "A" 4609), Anti-Money Laundering Committee (Communications "A" 4353 and "A" 4459), Protection of Users of Financial Services Committee (Communication "A" 6418), Risk Committee, Institutional Governance, Ethics and Compliance Committee and the Human Resources Committee (Communication "A" 5218). Likewise, the Bank has created the following additional commissions under the supervision of the Board of Directors:

- Administration Commission;
- Finance Commission;
- Loans Management Commission;
- Legal Affairs and Delinquency Commission;
- Internal Affairs Commission;
- Assets and Liabilities Management Commission;
- Business Development Commission.





③ Financial Statements

Financial Statements

These Financial Statements have been prepared in compliance with the guidelines set forth by the BCRA for the institutions under its supervision. In line with such guidelines, as from 2018, institutions shall submit their financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) with certain exceptions.

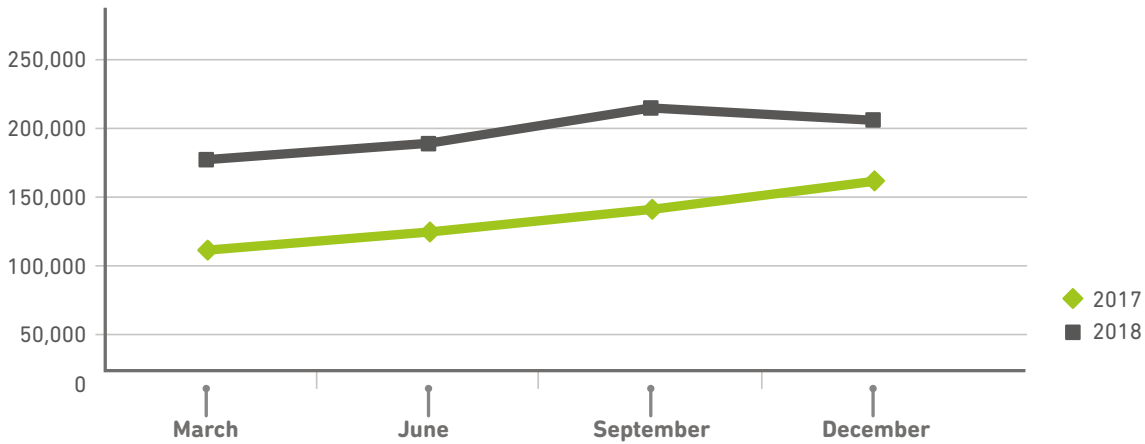
BALANCE SHEET

In millions of pesos

	Dec-17	Dec-18	Absolute Variation	Relative Variation
ASSETS	304,948	497,231	192,283	63.1%
Cash and due from banks	55,977	122,538	66,561	118.9%
Government and corporate securities	39,549	121,827	82,278	208.0%
Loans	164,151	209,714	45,563	27.8%
Other receivables from financial brokerage	25,442	10,710	(14,731)	(57.9%)
Receivables from financial leases	61	105	44	72.5%
Interests in other companies	3,253	5,060	1,807	55.5%
Miscellaneous receivables	5,785	2,440	(3,345)	(57.8%)
Property, plant and equipment	10,428	24,219	13,792	132.3%
Other assets and items pending allocation	302	618	316	104.3%
Liabilities	279,122	451,625	172,504	61.8%
Deposits	260,015	414,952	154,937	59.6%
Other liabilities from financial brokerage	12,726	27,251	14,526	114.1%
Miscellaneous liabilities	3,926	6,058	2,132	54.3%
Provisions	2,363	3,255	892	37.8%
Items pending allocation	92	109	17	18.5%
Net worth	25,826	45,605	19,779	76.6%

Assets

EVOLUTION OF BPBA LOANS (total figures, net of allowances) 2017 vs 2018 (in millions of pesos)



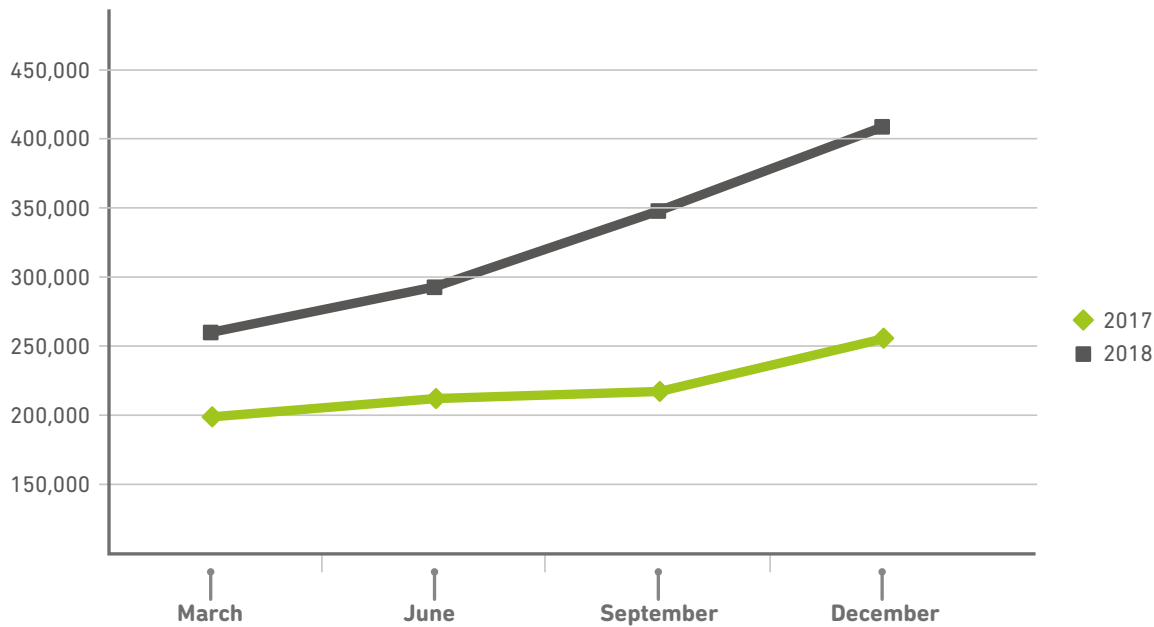
In 2018, the consolidated figures with the Bank’s foreign branches showed a 63.1% y/y growth in Assets equivalent to \$192,283 million mainly due to increases in:

- Cash and Due from Banks, which grew 118.9%, equivalent to \$66,561 million.
- Government and Corporate Securities, which rose by 208% (\$82,278 million) due to the purchase of Liquidity Bills.
- The Loans caption, net of the uncollectibility allowance, which improved by 27.8% (\$45,563 million). Such variation mainly derived from the UVA loan adjustments exchange differences, and the increase in loans to the private sector (particularly UVA-adjusted consumer loans and under salary payment agreements, and UVA-adjusted mortgage loans), credit cards and notes
- Other Receivables from Financial Brokerage, which reduced \$14,731 million (57.9% y/y) mainly due to the decrease in repo transactions involving instruments issued by the BCRA (\$11,377 million).

- Interests in Other Companies, which increased \$1,807 million due to the Bank’s interest in Grupo Banco Provincia S.A.
- Miscellaneous Receivables, which fell \$3,345 million (57.8%) as a result of a change in the accounting criterion applicable to Advances in Pension Contributions to the Retirement and Pension Fund according to the prevailing legislation and the Compliance Schedule approved by the BCRA.
- Property, Plant and Equipment, which grew 132.3%, equivalent to \$13,792 million as a result of the Bank’s real property revaluation. By exercising the IFRS 1 option, the fair value of real property, assessed by independent experts, has been adopted by the Group as the deemed cost.
- The remaining Assets showed a slight comparative change.

Liabilities

EVOLUTION OF BPBA DEPOSITS (total figures) 2017 vs 2018
(in millions of pesos)



The consolidated figures with the Bank’s foreign branches showed a 61.8% increase (\$172,504 million) in Liabilities, thus totaling \$451,625 million.

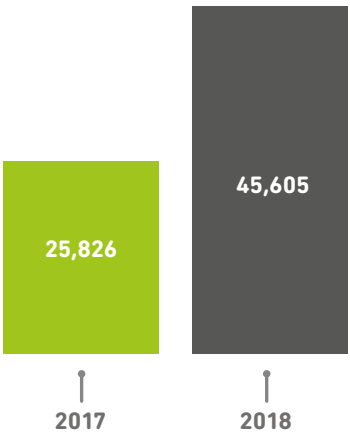
Deposits, its major caption, rose 59.6%, equivalent to \$154,937 million, amounting to \$414,952 million. This was caused by the expansion of Non-Financial Private Sector Deposits for \$94,255 million, standing out increases in savings accounts and fixed-term deposits for \$35,889 and \$51,891 million, respectively, and also of Non-Financial Public Sector Deposits, derived from special checking accounts for legal entities (\$24,031 million),

non-transferable fixed-term deposits (\$15,231 million) and checking accounts (\$11,170 million).

Other Liabilities from Financial Brokerage grew by 114.1% (\$14,526 million). This situation mainly derived from the increase in Liabilities from Financing of Purchases (\$3,483 million) and Unsubordinated Negotiable Bonds (\$5,648).

Net Worth

Changes in net worth
(in millions of pesos)



In 2018, Net Worth increased \$19,779 million as against the previous year.

Such variation derived from the income/(loss) for the year and the property, plant and equipment revaluation, since the Group exercised the IFRS 1 option and adopted the fair value of real property, assessed by independent experts, as the deemed cost.



Statement of Income

Statement of income
in millions pesos

	Dec-17	Dec-18	Absolute Variation	Relative Variation
Financial income	37,097	83,540	46,443	125.2%
Financial expenditure	15,397	49,047	33,650	218.6%
Gross brokerage margin	21,700	34,493	12,793	59.0%
Allowances for loan losses	2,117	4,282	2,165	102.3%
Income from services	9,358	12,505	3,147	33.6%
Expenditure for services	5,347	6,454	1,106	20.7%
Administrative expenses	19,546	31,714	12,168	62.3%
Net income from financial brokerage	4,048	4,549	501	12.4%
Miscellaneous income	5,414	2,887	(2,527)	(46.7%)
Miscellaneous losses	3,739	2,021	(1,718)	(46.0%)
Income tax	1	6	5	638.5%
NET INCOME FOR THE YEAR	5,722	5,409	(313)	(5.5%)
Other comprehensive income - Miscellaneous	111	834	723	649.9%
Other comprehensive income - Revaluation		13,536	13,536	100.0%
OTHER COMPREHENSIVE INCOME	111	14,370	14,259	12,816.4%
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	5,833	19,779	13,946	239.1%

Net Income for the Year was \$5,409 million, accounting for a 5.5 % drop (\$313 million) as against the previous year.

The Gross Financial Brokerage Margin totaled \$34,493 million, a 59% increase with respect to 2017. Such increase derived from Financial Income, mainly interest on consumer loans, UVA loan adjustments and Income/(loss) from Government Securities. In terms of Financial Expenditure, such expansion was due to higher interest amounts paid on Fixed-Term Deposits.

Income from Services reached \$6,051 million, a \$2,041 million rise. This was mainly due to higher commissions on Visa, MasterCard and Procampo credit cards resulting from the direct marketing actions implemented.

Administrative Expenses totaled \$31,714 million, a 62.3% y/y rise (\$12,168 million). About 47% of such increase derives from

the change in the accounting criterion applicable to Advances in Pension Contributions to the Retirement and Pension Fund according to the prevailing legislation and the Compliance Schedule approved by the BCRA.

Miscellaneous Income/Miscellaneous Losses posted profits for \$866 million, accounting for a decrease of \$809 million as against the previous year, derived from the income/(loss) on long-term investments and higher charge for loss of value and adverse judgements, partially offset by the growth in receivables recovered and allowances reversed.

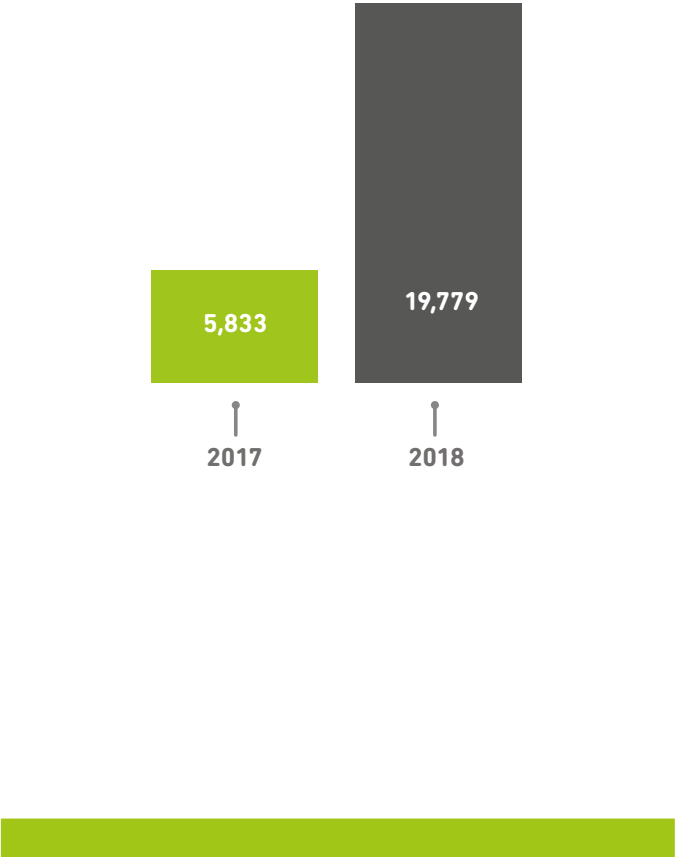
Other Comprehensive Income totaled \$14,370 million, a \$14,259 million increase over the previous year. Such increase resulted from the property, plant and equipment revaluation, since the Group has exercised the IFRS 1 option and adopted the fair value of real property, assessed by independent experts, as

the deemed cost. The remaining \$834 million corresponded to conversion differences of overseas branches and holdings of financial instruments at fair value.

By adding Other Comprehensive Income – Miscellaneous (\$834 million) to the net income/(loss) for the year, the 2018 operational result amounts to \$6,243 million.

The operational result plus the property, plant and equipment revaluation amount to \$19,779 million on account of Comprehensive Total Income, a 239.1% increase (\$13,946 million) over the previous year.

Total comprehensive income
(in millions of pesos)





4

**Banco
Provincia
Museum**



Banco Provincia Museum

In 2018, the “Dr. Arturo Jauretche” Historical Archives and Museum of Banco de la Provincia de Buenos Aires celebrated its 115th anniversary. It is committed to the preservation of the historical, artistic and cultural heritage of the province of Buenos Aires and Argentina.

During 2018, more than 3,100 students (12-18 years old) from different schools of the city and the province of Buenos Aires have visited the Museum within the framework of the *Banco y Niñez* program. This 30-year-old program provides information about the Bank’s role in the Argentine history, the evolution of the local currency and the most usual financial transactions.

Nine temporary exhibitions on visual arts were organized at the Museum, displaying the works of 48 artists.

The Museum presented three exhibitions of the Bank’s institutional heritage: 2 art collection exhibitions and 1 exhibition entitled *Sarmiento y el Banco Provincia*, which showed the relationship between this national hero and the Bank through documents, medals, coins and bank notes; once again, it took part in the 15th anniversary of *La Noche de los Museos* (November 10, from 8 pm to 3 am), displaying its cultural heritage to new visitors.

In 2018, the Historical Archives and the Library continued developing historical research projects and classification activities. Moreover, a book lending service was offered and the inquiries of internal/external researchers were handled, both in person and through electronic channels. The *300 Años de Documentación* Program continued, aimed at the digitalization of the Board of Directors’ Minutes.

A total of 67 activities were held at the Auditorium and Multipurpose room. They were organized by the Bank’s offices, companies of Grupo Provincia, national and provincial public entities, educational and cultural institutions, private entities and non-governmental organizations (NGOs). During the induction courses organized by Human Resources, the Bank’s new employees visited the Museum and the Head Office and learnt about the landmarks in the Bank’s history and tradition.



⑤ Banco
Provincia
Foundation

Banco Provincia Foundation



We have worked together with social referents in 86 community projects to strengthen community spaces: 80 refurbishment/improvement works, provision of 56 equipment for workshops on skill development, 30 recreational experiences and 8 projects for the improvement of institutional capacities.

During 2018, the Foundation encouraged the development of 136 new projects enabling improvements in 163 educational and supportive centers in 28 municipalities. Such places are daily attended by more than 29,000 children and young people.

More than \$36.3 million was invested through our Institutional Programs: 88% in the *Refugios Visibles* program aimed at strengthening community organizations; 3% in the *Comunidades Abanderadas* program oriented towards the improvement of educational institutions, inviting the local community to participate in this process; and 9% in the *Proyectos Complementarios* Program, fostering different initiatives of development and social inclusion in the Province of Buenos Aires.

These programs stimulate and encourage the development of life projects. In these community spaces, schools, neighborhood organizations and day care centers values are defined and built and skills are developed.

Among the main programs, the following ones stand out:

Refugios Visibles: aimed at strengthening and promoting community social organizations providing support and education to children and young people during out of school hours, complementing the work of social referents.

Comunidades Abanderadas: aimed at improving public schools, recognizing the significant role of educational institutions and inviting the community to participate in this process.





6 **Grupo Banco
Provincia**



Grupo Banco Provincia

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

Its purpose is to offer high quality and accessible insurance, non-banking financial

services and other services supplementary to the financial activity as well as to provide support for the development of families, entrepreneurs, companies, and local governments.

At December 31, 2018, Grupo Provincia held long-term (direct and indirect) equity interest in the following 11 companies, out of which 9 are directly and indirectly controlled by Grupo Provincia.

GRUPO BANCO PROVINCIA			
Company	Direct	Indirect	Total
Insurance			
Provincia Seguros S.A.	60.000%	0.000%	60.000%
Provincia Aseguradora de Riesgos del Trabajo S.A.	97.092%	1.745%	98.837%
Provincia Seguros de Vida S.A.	60.000%	0.000%	60.000%
Internacional Compañía de Seguros de Vida S.A.	40.780%	0.000%	40.780%
Services			
BAPRO Medios de Pago S.A.	97.000%	2.996%	99.996%
BAPRO Mandatos y Negocios S.A.	100.000%	0.000%	100.000%
Provincia Bursátil S.A. Brokerage House	95.000%	0.000%	95.000%
Buenos Aires Desarrollo S.A. ^(*)	50.000%	0.000%	50.000%
Finance			
Provincia Leasing S.A.	99.710%	0.271%	99.981%
Provinfondos S.A. - Manager of Mutual Funds	0.000%	85.500%	85.500%
Provincia Microempresas S.A.	0.677%	0.000%	0.677%

(*) Buenos Aires Desarrollo S.A. in liquidation.

Corporate Management

In line with the strategic guidelines laid down in 2017, the authorities of Grupo Provincia adopted for 2018 measures aimed at consolidating the business plans of Grupo Provincia’s companies through an increased turnover; a greater inter-company coordination and integration between Banco Provincia’s and Grupo Provincia’s businesses, a more efficient control of operating and structural expenses; utilization of IT and communication technologies, systematization of processes to improve customer service and operating efficiency, and a strict follow up of financial investments.

In the year 2018 under analysis, Grupo Provincia’s consolidated income from services amounted to \$33,009 million, 23.9% above 2017. Profits reached \$1,620 million and the Stockholders’ Equity totaled \$3,692 million, i.e. a \$1,738 million increase as against December 2017.

Under the corporate governance guidelines, Grupo Provincia continued working on risk management in compliance with the requirements imposed by the BCRA and BPBA. The coordinated efforts among Grupo Provincia, Grupo Provincia’s companies and BPBA helped improve and strengthen the tasks and controls made, developing early risk evolution indicators.

With respect to Anti-Money Laundering, Grupo Provincia and its companies continued working with BPBA according to the standards issued by the BCRA and the Financial Information Unit (*Unidad de Información Financiera - UIF*). In spite on its non-reportable status, the Board of Directors of Grupo Provincia has adopted measures to prevent and monitor money laundering activities in all business sectors.

To ensure compliance with the technical ratios committed by Provincia Seguros S.A. and Provincia ART S.A. in their plans to regularize minimum capital and coverage deficits submitted before the National Insurance Superintendency (*Superintendencia de Seguros de la Nación - SSN*), Grupo Provincia continuously monitors the activity of both companies.

Under the Management Control and Planning framework, Grupo Provincia continued monitoring the compliance with the business plans and budgets of Grupo Provincia’s companies, identifying deviations, suggesting the pertinent corrective measures and developing analysis and comparative studies of the competition in each market segment.

As regard corporate finance, the performance of the investment portfolios of Grupo Provincia’s

companies was thoroughly followed up, providing an ongoing advice on the investment decisions and policies to be developed.

Grupo Provincia, through its business and marketing actions, encourages its companies to continuously improve and strengthen the positioning of Grupo Provincia’s and its companies’ brand. In this sense, Grupo Provincia’s companies together with BPBA adopted communication and business actions aimed at satisfying the needs of individuals and SMEs.

The findings of the Human Resources Diagnosis and Working Atmosphere Survey identified leadership as a key factor. Therefore, a Leadership Development Program was conducted with the participation of Grupo Provincia’s staff. With respect to training, IT tools and other specific resources for professional development were incorporated.

In terms of Staff Recruitment, the companies were assisted in the performance of in-house/ external recruitments. In order to improve employees’ career development, vacancies were mainly filled by in-house candidates, whose profiles fit the job requirements.

A Human Resources Forum was created with the participation of the heads of Grupo Provincia’s companies. It aimed at sharing experience and knowledge, identifying team work opportunities, and generating synergies. Since its creation, several corporate initiatives were carried out: a new edition of the *Concurso de Ideas* contest, whereby employees submitted innovative proposals to enhance the companies’ performance and the implementation of different staff benefits and other integration measures aimed at favoring internal labor atmosphere, the identification and sense of belonging of the companies’ employees.

At December 2018, permanent and temporary employees of Grupo Provincia’s companies totaled 3,153, a 0.2% growth in labor force as against December 2017. Productivity, measured by the total accumulated income/average number of employees ratio, increased from \$8.6 million in 2017 to \$10.5 million in 2018.

During 2018, Buenos Aires Desarrollo S.A. went into a liquidation process.

Grupo Provincia did not distribute dividends to shareholders but received dividends from its companies for an amount of \$120.3 million.



2019 Prospects

Both Grupo Provincia and Banco Provincia will continue taking commercial actions to satisfy customers' needs, create new products and services so as to expand and diversify their customer base, and comply with the regularization of Provincia ART and Provincia Seguros approved by the SSN.

For 2019 the following corporate government actions are projected:

- To carry out commercial actions aimed at expanding the "Cross Selling" practice and work with Banco de la Provincia de Buenos Aires to meet the needs of provincial entities, municipalities, individuals and SMEs.
- To enhance customer service quality through IT and communication tools and more efficient call centers.
- To continue providing advice on investments and follow up the pertinent transactions.
- To intensify the search for financing sources in order to expand leasing financial services.
- To control compliance with corporate and regulatory requirements by Grupo Provincia's companies, particularly, the regularization plans of Provincia Seguros and Provincia ART submitted before the SSN.
- To monitor risks and adopt the pertinent measures required by Anti-money Laundering and Corporate Criminal Liability Laws.
- To progress with the liquidation process of Buenos Aires Desarrollo S.A. For that purpose, in December 2018, Grupo Provincia paid \$15.1 million to cover the obligations assumed by Provincia BA Desarrollo S.A.

According to 2019 prospects, total income of Grupo Provincia and its companies would reach \$41,000 million, a 24% increase as against 2018. Income for 2019 will depend on the evolution of Provincia ART's transactions and the risks inherent in such business since the amount of labor lawsuits and their costs will significantly affect Grupo Provincia's results. Income is expected to be affected also by future changes in the regulations and rules issued by the SSN and the Workers' Compensation Insurance Superintendency (*Superintendencia de Riesgos del Trabajo – SRT*) and the yield on placements in a year with highly volatile financial variables.



Balance Sheet, Statement of Income and Financial Indicators

There follows a breakdown of the unaudited Financial Statements for the year 2018, pursuant to the IFRS:



1. Consolidated Balance Sheet

GRUPO BANCO PROVINCIA S.A. (at December each year - In thousands of pesos)			
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Consolidated balance sheet	2017	2018	2018/2017
Total assets	33,219,931	48,908,156	15,688,225
Total liabilities	30,397,241	43,912,002	13,514,761
Premises and equipment	372,336	526,288	153,952
Intangible assets	39,270	40,184	914

In 2018, total assets of Grupo Provincia amounted to \$48,908 million, a 47.2% increase over the previous year and total liabilities rose by 44.4%. Such increase in assets was mainly due to larger financial investments by the insurance sector in deposits in the financial sector and in public (national/provincial) and private securities.

2. Consolidated Economic/Financial Performance Indicators

GRUPO BANCO PROVINCIA S.A.			
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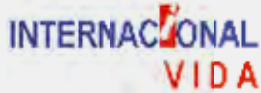
Consolidated financial indicators	2017	2018	Ratio
Solvency	9.3%	9.9%	Stockholders' equity/ Total liabilities
Return on assets (ROA)	2.8%	3.7%	Income for the year/ Assets
Return on equity (ROE)	33.19%	41.36%	Income for the year/ Stockholders' Equity
Immobilized assets	1.12%	1.08%	Real property/ Total Assets

Total income for 2017 considered, for financial indicators, excluding the one-time IFRS adjustment amounted to \$937 million. Total income for 2017 adjusted by application of the IFRS amounted to \$2,004 million. The adjustment to the Stockholders' Equity was \$1,067.6 million. The adjustment is excluded to minimize distortions.

When comparing financial ratios, solvency and profitability indicators increased, while the immobilized asset indicator remained stable.

GRUPO PROVINCIA's Companies - Summary

1. Insurance sector



a. Provincia Seguros S.A. - Property Insurance

The Company, which participates in the market of General Insurance (property and group life insurance), recorded operations for \$8,271 million in 2018, out of which \$7,714 million was accrued during the year. At December 31, 2018, its Stockholders' Equity amounted to \$866 million and an annual profit was reported for \$363 million. All amounts are expressed in current Argentine pesos without adjustments for price changes.

Strategic Plan: Since 2016, the new authorities have been redefining the general corporate strategy and performing a detailed analysis of the Company's operative and accounting processes. After such analysis, several adjustments were made, whose net effects were taken to income/(loss) for the period ended June 30, 2016. This process of managerial and accounting adequacy continued during the year with positive results.

Adequacy Plan: At December 31, 2018, the Company was in compliance with the coverage and minimum capital requirements properly calculated according to the standards laid down by the SSN and in line with the goals approved in the Adequacy Plan.

Operating Plan: In turn, all management areas were prompted to take different actions under the process started in 2016. Such actions included:

- A continued improvement in Processes and Proceedings.
- Creation of an Operations and Processes Management.
- Development of a new centralized customer service model at the Bank's Head Office.
- Opening of a new Customer Service Centre located in the city of San Miguel.
- Solid collection management processes and reduction of overdue debt amounts, with the consequential impact on the investment stock through

the development of new dashboards for the recovery of debts and follow up of internal administrative tasks.

- Creation of procedures and packages for implementation of IVR, APP Mobile, WS (end user) and Zamba.
- Activities to control loss risks:
 - Development and implementation of procedures for a mobile app to address the claims of policyholders. A case number is automatically generated, activating in the Workflow system, certain tasks so as to receive immediate assistance.
 - Updating of risk indicator proceedings related to the new release of the Webservice provided by Cesvi-Sofía and use of Score for both loss claims and insurance policy issuance.
- Activities to monitor lawsuits:
 - Development of proceedings for the BPM – Zamba Mesa de Entradas app to gather information about loss claims /third parties and judicial actions. Proceedings for the BPM – Zamba de Mediaciones y Juicios app were also developed.
 - Creation of a web chat to assist insurance brokers, thus enhancing communication channels and reducing response times.

During 2018, several measures were adopted for the compliance with the coverage and minimum capital requirements adequacy plan under section 35.

In furtherance of the above, in 2019, the Company will:

- Conduct profitable businesses.
- Maintain a solid collection policy.

- Improve internal and external customer service, focusing on insurance brokers and insureds.
- Focus on administrative claims and early resolution of transactions.
- Reduce the number of legal actions.
- Continue upgrading procedures and processes so as to reduce response times.
- Minimize expenses by delivering documents through electronic means.
- Develop a single sales platform for Banco Provincia and Provincia Seguros.

Provincia Seguros is devoted to be a self-sustainable Company. It is committed to provide all customers, insureds and insurance brokers with high quality products and services, foster professional development among staff, and apply high transparency standards.



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

The Company, which participates in the workers’ compensation insurance market according to Law No. 24557/95, issued premiums and surcharges for \$15,987 million in 2018, a 46% increase over 2017.

At year end, the investment portfolio recorded a 40% annual growth (\$26,875 million). This accounted for a profit of \$825.4 million, an 81% increase over 2017 (\$455.5 million). The Company’s Stockholders’ Equity was \$1,551 million at the end of 2018. All amounts are expressed in current Argentine pesos without adjustments for price changes.

At December 31, 2018, Provincia ART had 1.75 million policyholders, maintaining its portfolio as against 2017. At such date, the Company ranked first in terms of insured workers throughout the country. Provincia ART manages the self-insurance regime of the Province of Buenos Aires.

Adequacy Plan: At December 31, 2018, the Company was in compliance with the coverage and minimum capital requirements properly calculated according to the standards laid down by the SSN and in line with the goals approved in the Adequacy Plan.

Regulatory Framework: In February 2017, Law No. 27348, supplementing a previous law of 1995, was approved. Such law incorporates the mandatory requisite of a previous administrative instance before filing an action against the Company. The procedure consists of an examination by a Medical Commission, with or without a legal representative, to determine labor disability caused by an occupational disease or injury. The compensation amount shall be updated according to the RIPT index and the lending rate of Banco Nación so as to avoid the loss of purchasing power that may occur between the date of the first manifestation of disability and the final payment date. The law also fixes experts’ fees and creates a public self-insurance regime for all state offices not included in the scheme.

In 2018, claims decreased 34% with respect to 2017 as a result of the incorporation of 15 jurisdictions into the new workers’ compensation Law. At December 2018, the City of Buenos Aires, Córdoba, Mendoza, Province of Buenos Aires, Formosa, Salta, Chaco, Misiones, among others, have adhered to the rule. To date, the inclusion of the Province of Santa Fe, a relevant jurisdiction in terms of lawsuits, is still pending. In 2018, there were delays in the establishment of medical commissions.

Law No. 27348 and Executive Order No. 57/17 have modified the calculation of monetary compensations with an immediate effect on insurers’ costs and provisions. In this regard, Provincia ART set up increased provisions for \$1,258 million.

In December 2017, the SSN issued Resolution No. 41155 amending the amounts of the provisions for claims to be set up by insurance companies. The minimum Global Reserve was increased from \$137,800 to \$165,000 per lawsuit and, in accordance with the Supplementary Law on Workers’ Risks No. 27348, shall be updated in line with the lending rate of Banco Nación. Moreover, total Reserves for Contingencies and up to 70% of the Reserves for IBNR (incurred but not reported) and IBNER (incurred but not enough reported) losses were reversed. This way, the Company will only settle current lawsuits related to labor accidents or professional diseases occurred before March 5, 2017. Until June 30, 2019, companies will be allowed to allocate such reserves exclusively for the settlement of lawsuits.

Provincia ART’s main goals for 2019 are aimed at maintaining its policyholders’ base and reducing lawsuits with respect to 2018. The Company plans to adjust the pertinent provisions so as to minimize the gap when paying mainly court-ordered claims. This adjustment could cause an impairment of technical ratios, requiring additional contributions from stockholders.

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

The Company is devoted to the commercialization of individual life insurance targeted to middle income consumers highly prone to protection and saving. Its minority shareholder is CNP Assurances Brasil Holding Ltda. with 40% of the capital stock. Provincia Seguros de Vida S.A. operates under the “insurance banking” marketing model, mainly in collaboration with the Bank.

During 2018, its production amounted to \$628 million (32.7% over 2017), increasing more than 78% in the last two years. Policyholders totaled 583,690, an 11% rise as against the previous year, thus Provincia Seguros de Vida S.A. stood as the insurance company with the highest number of insureds.

Provincia Vida recorded a net income of \$215 million in 2018, 105.1% over 2017. The Stockholders’ Equity

amounted to \$321.2 million at December 2018, a 67.2% increase with respect to the previous year. With a 4.43% market share, at September 2018, the Company ranked 8th in terms of life insurance policies (ranking that includes general insurance companies engaged in the commercialization of individual life insurance).

For 2019, Provincia Vida plans to continue its regular activities including the performance of different commercial actions, the updating of IT tools to be used by the Bank’s authorities, negotiations with Banco Provincia to incorporate the Company’s products in the special productivity measurement performed by the Bank as well as commercial actions in branches and regional centers. Likewise, the updating of the central IT system of the Company is under process.

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

Due to the enactment of Law No. 26222/07 and its related regulations abolishing the obligation of the Retirement and Pension Fund Administrators (*Administradoras de Fondos de Jubilaciones y Pensiones - AFJPs*) to contract a life and disability insurance, since January 1, 2008, the Company had to discontinue its production and keeps administering pre-existing policies. Therefore, no new policies were issued and its operations became limited to the collection of premiums of insurance policies effective at June 30, 2007 and to

the payment of the relevant claims. This situation significantly reduced the Company’s managed investment portfolio.

In 2018, it recorded profits for \$62.1 million, with a portfolio of \$190 million, supported by a diversified investment policy and the optimization of the risk/return ratio. The Company distributed dividends to its shareholders for \$52 million, and allocated \$21.2 million to the Group.

2. Services Sector



a. Bapro Medios de Pagos S.A. (Provincia NET)

In 2018, Bapro Medios de Pago S.A. recorded a total billing of \$2,518 million and a net income of \$159.6 million, 26% and 318% increases over 2017, respectively.

At the end of 2018, Provincia NET is the technology company of Grupo Banco Provincia S.A. supported by its strong data processing capacity. Provincia NET promoted IT businesses, a Non-banking Collection System, a Contact Center and a Bet Capture and Processing Software throughout the year.

Provincia NET is a key player for the Group and public sector agencies and its main purpose is to offer a smart and valuable public service. In 2018, the Company has continued its growth within the private sector.

This business unit has a high-tech Data Center with Cisco technology and TIER II certification granted by the UPTIME INSTITUTE international organization.

Provincia Net’s transactions within the non-banking collection segment increased by 7.7% as against 2017 and the Company has received an additional 10.6% income on account of

commissions. It has grown significantly in terms of number of agents, arrangements, transactions, average billing and gross profit. It has also boosted an integral transformation plan for modernization and cost reorganization.

Provincia Net’s Contact Center has maintained the growing trend supported by its main client, Banco de la Provincia de Buenos Aires (+144% annual). Its customer base has also expanded.

PNET continued with the agreement subscribed with the Provincial Institute of Lotteries and Casinos (*Instituto de Loterías y Casinos de la Provincia de Buenos Aires*), in force since 2012. The billing of this business unit increased 14% over 2017.

The billing of the IT Technology business totaled \$145.6 million, showing an annual increase of 102%.

The most significant investment in capital goods is related to the project started in 2016, which includes the acquisition of a premises in the Technological District for the capitalization of the Company. In October, some of the staff of the Technology business unit moved to the new premises.

b. Bapro Mandatos y Negocios S.A. (Provincia Mandatos)

Bapro Mandatos y Negocios S.A.U. is a company specialized in trust activities, engaged in the structuring and management of trusts.

During 2018, the Company has continued the restructuring process, started at the end of the previous year, oriented to a more efficient use of resources in order to organize processes and duties involved in the existing trust management.

A significant part of the Company’s activity, with the active participation of the Legal Affairs and Administration Managements, included the close and definite cancellation of one third of the trust structures existing at December 31, 2017. Such trusts were active but without operational activities, thus generating costs to the Company. Several efforts were made so as to appropriately terminate the trust agreements satisfying

the expectations of all the parties concerned. In fact, Provincia Mandatos could recover significant amounts for expenses incurred in previous years.

Therefore and according to its business model review, the Company intends to make a thorough analysis of the active trust, so as to determine whether to maintain its fiduciary capacity or terminate them. Such decision will take into account the Company’s clear mission to provide assistance to the Public Sector, offering services to the Province of Buenos Aires and Banco Provincia.

The Company met with authorities of Municipalities and Ministries to define strategies related to the use of the trust as a vehicle to put into practice different initiatives for the benefit of the provincial people.

Provincia Mandatos continued an internal restructuring process of human resources, which had started the previous year, implementing changes in key managerial positions. Likewise, in a coordinated action with the Shareholder, the employees were distributed among the other companies of the Group. New employees who fit the professional qualifications required by both managements were hired so as to improve operative and control processes and ensure the internal and external regulatory compliance.

In line with the foregoing, Provincia Mandatos’ trust management is under an informatization development process through a technological platform which will be used to manage the Company and all trusts. This process will enable an integral, single and centralized management of all the transactions through the full digitalization of tasks and the relevant supporting documents. This system, with a high processing capacity, will also be used for AML/FT and risks management purposes. This service, offered by Data Center (a specialized provider), replaces the Company’s own servers currently in use and allows Cloud storage.

This informatization process is expected to result in a more efficient use of resources, an increase in the quality of the services offered by the Company and a reduction in response times. It will also ease the access to management reports by different users, according to their functions and the level of permission assigned.

The Company dealt with the judicial liquidation of the Estrella del Sur Trust filed before the pertinent Court in Commercial Matters in November 2017, in line with the provisions of Section 1787 of the National Civil and Commercial Code. The action was upheld by the Appellate Court in Commercial Matters in September 2018. Within this framework, creditors’ claims were alleged and verified, Individual and General reports (the last one showing a priori balanced Assets and Liabilities) were submitted, and the sole asset Liquidation was requested in December 2018. The public sale of this premises was scheduled by the judicial authorities for June 30, 2019.



c. BA Desarrollo S.A.

BA Desarrollo S.A. is a company of Grupo Provincia S.A. Its main purpose was focused on promoting and developing financial and technical assistance to foster the various productive, commercial and service-related sectors of the Province of Buenos Aires. It acted as manager and arranger, providing services related to surveys, technical coordination, financial structuring and planning of matters under its fields of competence, with the support of professional experts.

Due to external and internal factors that triggered a slowdown in economic growth, an increase in inflation rates and a high volatility in internal exchange and financial markets, the Company has terminated all contracts entered into in 2018 and discontinued its activities.

At the end of 2018, BA Desarrollo S.A. was under liquidation process.

d. Provincia Bursátil S.A. Brokerage House

The Company's main activity is to act as intermediary in the offer and demand of fixed-income/equity securities and financial derivatives and to carry out the other transactions detailed in law No. 26831, Executive Order No. 1023/13, the 2013 Consolidated Text of the General Resolutions and Rules issued by the National Securities Commission, the By-laws and the Internal and Operative Regulations. The Company acts on behalf of principals, whether natural or artificial persons, or national, provincial or municipal agencies. It carries out its brokerage activities with own funds, under the same operative mechanisms. Transactions are carried out at the concurrence market and the Bilateral Negotiation Segment.

On January 12, 2017, the National Securities Commission, through Resolution No. 3220 accepted to enter Provincia Bursátil S.A. in the Mutual Funds Underwriters and Distributors Register under No. 18. Since then, the Company has been authorized to promote and place quota shares of the Mutual Funds managed by its

controlled company, Provinfondos, thus expanding its portfolio of collective investment products.

Provincia Bursátil holds 90% of the capital stock of, and consolidates its financial statements with, Provinfondos S.A., a manager of Collective Investment Products that is primarily engaged in managing the portfolio of mutual funds.

At the beginning of the year, high rates and the devaluation effect caused a deceleration in primary placements. As a result, investment from each broker decreased by 33%. The last part of the year was marked by the end of the "Lebacs (peso-denominated notes issued by the BCRA) era", which had had an exponential increase in 2016/2017.

Expectations for 2019 include to operate in the ROFEX (Rosario Futures Exchange) futures trading market as permanent member and to consolidate the presence of Provincia Bursátil in the brokerage market, with the ensuing increase in the overall volume of transactions.

3. Financial Sector







a. Provincia Leasing S.A.

Grupo Provincia participates in the leasing market through its controlled company, Provincia Leasing S.A., whose primary purpose is to provide leases with option to purchase personal or real property, whether own or acquired by the Company for leasing purposes.

During 2018, Provincia Leasing S.A. has consolidated its position among the top 5 leasing providers, maintaining its leading role in the public sector and offering support to municipalities and provincial agencies.

The private sector customer portfolio is mainly composed of SMEs of the province of Buenos Aires. Provincia Leasing S.A. offers an ideal financing instrument for the technological updating and modernization of SMEs engaged in different productive activities, through the equipment or installation of machinery or industrial plants for both agricultural and industrial production, without overlooking the various service-providing sectors. Such instrument favors the financing of industrial equipment, vehicles, road and construction machinery and the acquisition of IT and communication high technology.

The Company has continued its commercial strategy mainly oriented to the municipalities of the province of Buenos Aires, specially focusing on equipment for infrastructure works and street lighting. Provincia Leasing has also assigned a high priority to the financing of provincial SMEs.

With respect to the financing strategy, the Board of Directors maintained the diversification of financing sources initiated in 2017. However, the financial

trusts and negotiable obligations issuance program could not be completed, since the local capital markets have been virtually closed from April onwards. Therefore, the Company's activities had to be supported by credit facilities from financial entities, the extension of existing limits and the sale of income-generating premises.

An inter-disciplinary work team committed to improving processes and optimizing resources was created. As expected, portfolio internal structure costs and contract execution internal processes were reduced.

Thanks to the strategy adopted by the Board of Directors during this year, profitability targets have been exceeded and the Stockholders' Equity has significantly increased. The proposed goal of a 25% increase in new leasing contracts as against 2017 was not achieved. Despite the challenging context, the Company managed to maintain the same volume of fixed assets investments.

Labor workshops held in industrial parks and the great majority of municipalities of the province of Buenos Aires together with Grupo Banco Provincia S.A. and its controlled companies continued in 2018. The Company had an active participation in several fairs and events, interacting with potential customers and suppliers. The commercial relationship with "selected suppliers" was reinforced in order to maintain and extend the vendors channel, which enabled the Company to offer competitive financing. The average value of contracts subscribed in 2018 with public and private sectors amounted to \$27.9 million and \$3.7 million, respectively. Transactions with the Public Sector accounted for 82.5%.

b. Provinfondos S.A. - Manager of Collective Investment Products (Provincia Fondos)

The Company’s main activity is to manage the portfolio of mutual funds, acting as Manager of Collective Investment Products. Banco de la Provincia de Buenos Aires acts as Custodian of Collective Investment Products - Mutual Funds pursuant to law No. 24083.

The equity structure of Provinfondos is the following: Provincia Bursátil S.A. (company controlled by Grupo Provincia): 90%, and Retirement and Pension Fund for Banco de la Provincia de Buenos Aires Personnel: 10%.

In 2018, total funds managed by all mutual funds in Argentina increased by \$54,623 million (10% growth as against 2018), totaling \$598,497 million at December 31. This slight increase was due to the difficult year faced by the sector derived from the volatility in exchange rates and financial assets value.

Assets managed by Provinfondos rose from \$12,613 million to \$20,009 million in the December 2017/July 2018 period,

accounting for a market share increase from 2.32% to 3.51%. The significant growth in interest and exchange rates and the drop in financial assets prices, which affected the mutual fund sector during August and September, resulted in a marked decline in managed funds.

At the end of the year, the funds managed by Provinfondos amounted to \$9,489 million, a 24.76% drop compared to the previous period, accounting for a market share decrease of 1.58%. Both the mutual funds industry and Provinfondos recorded the largest drops in T + 1 funds, as a consequence of the dismantling of carry trade positions and the gradual restrictions imposed on Lebac.

“1822 Raíces Renta Global” and “1822 Raíces Inversión” mutual funds had a negative equity variation of 79.53% and 88.82%, respectively, as against the previous year. On the other hand, money market mutual funds had a better performance, such as “1822 Raíces Ahorro Pesos” that grew 117.32% as against 2017. There follows a detail of the funds under management:

Fund	(AR \$) 2018	(AR \$) 2017	Variations (%)
1822 Raíces valores negociables	878,233,048	795,399,259	10.41%
1822 Raíces renta en pesos	223,200,299	229,304,331	-2.66%
1822 Raíces renta global	343,690,714	1,679,126,779	-79.53%
1822 Raíces ahorro pesos	5,969,609,364	2,746,859,572	117.32%
1822 Raíces valores fiduciarios	629,096,520	704,139,296	-10.66%
1822 Raíces inversión	611,271,283	5,469,690,745	-88.82%
1822 Raíces dolares plus	833,436,885	988,669	-15.72%
Total	9,488,538,113	12,613,367,650	-24.76%

In spite of the drop in managed funds during the last months, in 2018 Provinfondos’ income amounted to \$230 million (14.89% over 2017). The Company’s profitability grew from \$107 million in 2017 to \$121 million in 2018.

A growth in managed funds is expected for 2019. The Company will continue making its best efforts to recover the funds under management and the market share levels recorded before the 2018 crisis.

During this year, mutual funds maintained their ratings as the result of their performance and the credit quality of the assets involved.

c. Provincia Microempresas S.A.

The Company’s main activity is to identify and select micro-entrepreneurs, providing them a prequalification for possible loans.

The Company trains and advises micro-entrepreneurs on how to expand their businesses in a sustainable way and properly settle their loan obligations.

The project, which had started in February 2009, expanded rapidly, turning into the most important microcredit company nationwide. At 2018 year-end, the Stockholders’ Equity of Provincia Microempresas S.A. was \$96.9 million, recording losses for \$68.5 million.

In 2018, the positive trend continued. Despite a different economic context as against 2017, the Company recorded an increase in transactions volume (8%), lending portfolio balance (38%, amounting to \$1,800 million) and active customers (11%, totaling 38,594 customers).

During the current year, the Company granted 31,639 loans. Out of such amount 11,778 were destined to customers who had access to the program for the first time, including 8,000 credits that were granted to customers who accessed for the first time to the traditional financial system.

At the end of the year, the lending portfolio consisted of 38,594 customers with an average age of 46 (52% were women). The customers’ main line of business is linked to commercial activities (46%).

Due to the amendment introduced by the BCRA to the Credit Management rules, financing conditions for micro-entrepreneurs have been improved and now up to 50 minimum, vital and mobile wages (\$565,000) may be offered.

This enabled Provincia Microempresas to accompany the development of its historical customers who have evidenced a significant increase in their businesses and financing needs. The Company provided 64 loans for over 25 minimum, vital and mobile wages totaling \$26 million. They were mainly destined to productive investment, particularly the acquisition of machinery, specialized equipment and vehicles. This growth was accompanied by a gradual formalization of the economy of micro-entrepreneurs, a necessary requirement to access to these credit facilities.

During the second half of the year, a new line of credit was implemented. Its purpose was to offer financing to new companies, which had no access to this program in light of the

few months they had been going into business. Loans for up to 1 minimum, vital and mobile wage (\$11,300) were made available to those entrepreneurs who had been developing their activities during 6 months or 1 year. So, they were incorporated to the program, favoring not only their financial inclusion from an early stage but also the relationship with Banco de la Provincia de Buenos Aires.

At the end of 2018 and after a 4-month trial period, the Company made 207 transactions for \$2,051,400. All Company’s branches are expected to offer these loans in 2019.

In order to promote the program among our targeted customer and align it to Banco de la Provincia de Buenos Aires’ profile, Provincia Microempresas changed its image and brand name to Provincia Microcréditos.

The Company worked on expanding the campaign bases (both purchase and repurchase) in order to speed up credit procedures in branches and improve customer service response time. On average, loans are made available within 3 business days from the date of the visit to the customer.

The risk level of the loans granted under this campaign is substantially lower than the Company’s average. The implementation of the risk performance score was successful and enabled the Company to flexibilize cut-off scores, thus a higher number of customers may have access to a dynamic credit process.

Finally, all the Company’s productive indicators improved. At December 2018, customers and funds managed by each Commercial Officer amounted to 270 and \$12.6 million, respectively, while, at December 2017, they totaled 207 and \$7.8 million.

After a strong focus on efficiency and expenses control, the Company’s income grew 46% y/y and its expenses only grew 14%.

Total losses amounted to \$68.5 million, but when comparing with losses recorded in 2017 (\$211.4 million at current values) the above mentioned improvement can be observed.

The Growth Plan and the organization structure adjustment led by the Board of Directors and the Managements, were successfully implemented. Improvements in all business variables were recorded. Mention should be made of the remarkable support of the majority shareholder, Banco de la Provincia de Buenos Aires, who paid- in all the subscribed capital (\$50,000,000) throughout the year.





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