

## ***The Province***

The Province is the largest of the 23 provinces of Argentina, with a population of approximately 15.6 million inhabitants. It is located in the central-eastern part of the country, in a region known as the "Pampas." The capital of the Province is the city of La Plata.

The provincial government consists of an executive branch, a legislative branch and a judicial branch. The executive branch consists of a Governor and a Vice Governor, both of whom are elected by popular vote, and a number of ministries, secretariats and other provincial governmental agencies. The legislative branch consists of the Senate and the House of Deputies. The judicial branch consists of trial courts, courts of appeals and the Supreme Court, which have jurisdiction over civil, commercial, administrative, labor, family and criminal matters within the Province. In addition, the provincial constitution provides for the existence of certain provincial agencies that do not fall under any of the three branches of government.

Each of the Province's 134 municipalities has its own government, responsible for providing basic local services. Pursuant to provincial law, the Province's municipalities are entitled to receive a percentage of the taxes collected by the Province and the federal government. In addition, several municipalities are entitled to collect certain provincial taxes.

Historically, the two largest and most traditional political parties in Argentina have been the *Partido Justicialista* (the "PJ") and the *Unión Cívica Radical* (the "UCR"), which have broad-based support across the country. In 2005, however, a faction within the PJ led by the former President of Argentina, Néstor Kirchner, and the former Governor of the Province, Felipe Solá formed a separate political party known as *Frente para la Victoria* (the "FPV"). See "The Province of Buenos Aires—Recent Political History." The PJ, the UCR and the FPV are followed by the *Afirmación para una República Igualitaria*, or the "ARI", *Coalición Cívica*, or the Civic Coalition, *Acuerdo Cívico y Social*, or the Social and Civic Agreement or "ACyS", *Recrear para el Crecimiento*, or Rebuild for Growth, *Propuesta Republicana*, or the Republican Proposal (in the Province of Buenos Aires, the Republican Proposal formed a political center-right wing alliance named *Unión-PRO*) and *Unidad Peronista* or "Peronist Unity". Currently, the FPV and PJ hold jointly 40.2% of the seats of the provincial House of Deputies, while the ACyS holds 38.0%, and Unión-PRO holds 21.8%. In the provincial Senate, the FPV and PJ hold jointly 45.7% of the seats, ACyS holds 39.1%, the Unión-PRO holds 13.0% and Peronist Unity holds 2.2%.

The current President of Argentina, Cristina Fernández de Kirchner, and the Governor of the Province, Daniel Scioli, were elected in October 2007 and took office in December 2007. The next elections for the President of Argentina and for the Governor of the Province are scheduled for October 2011.

## ***The Provincial Economy***

Official provincial GDP figures, which are based on preliminary data, are available for 2005 and 2006. Official provincial GDP figures are not available for 2007, 2008, 2009 and 2010. The Province extrapolated provincial GDP figures for 2007, 2008, 2009 and for the twelve months ended September 30, 2010 based on rates of growth in national GDP, by multiplying the provincial GDP figure for 2006 for each of the principal sectors of the provincial economy by the national rate of real GDP growth for that sector for 2007 according to INDEC. The Province applied the same

method for 2008 and 2009 and for the twelve months ended September 30, 2010 to extrapolate provincial GDP figures in those periods. Extrapolated provincial GDP figures are based on changes in national GDP by principal sector to account for structural differences between the provincial and national economies. The principal structural difference between the provincial and national economies is the greater relative weight of the manufacturing and export sectors in the provincial economy as compared to the national economy. This method of extrapolating provincial GDP figures assumes that real GDP by principal sector grew at the same rate on the provincial and national levels, and therefore that the allocation of real GDP by principal sector within the Province changed in tandem with national GDP by principal sector. Between 1994 and 2006, the correlation coefficient between provincial and national real GDP was 0.97, indicating a high degree of correlation. Extrapolated provincial GDP figures for 2007, 2008 and 2009 and the twelve months ended September 2010 do not account for any differences that may exist between the national and provincial sectoral real GDPs, including potential differences in growth rates, or other particular phenomena disproportionately affecting the Province's economy. Extrapolated provincial real GDP figures for 2007, 2008 and 2009 and the twelve months ended September 30, 2010 are not comparable to provincial real GDP figures for 2005 and 2006, and the Province cannot assure you that the assumptions underlying the extrapolations are correct, and therefore that the Province's extrapolations for provincial real GDP in 2007, 2008 or 2009 or the twelve months ended September 30, 2010 reflect actual real GDP for those periods. See "Risk Factors—Risks Relating to the Province—The statistics prepared by the Province as real GDP values for 2007, 2008, 2009 and 2010 are extrapolations of national real GDP, and may not accurately reflect actual provincial real GDP".

The economy of the Province represents a significant part of the overall Argentine economy and has tracked growth and recessionary cycles in the larger Argentine economy. From 2005 to 2006, Argentina was recovering economically from the effects of the 2001 economic crisis, and the Province experienced growth in its GDP. The Province's real GDP registered a 10.0% increase in 2005 and an 8.5% increase in 2006. In addition, this economic recovery alleviated the social tensions that arose during the 2001 economic crisis, as increased production gave rise to higher employment rates, with unemployment falling from 12.7% in 2005 to 10.5% in 2006.

Extrapolated provincial real GDP increased by 6.9% from 2007 to 2008, as Argentina's economic recovery continued. However, the global economic crisis, the A/H1N1 influenza pandemic and a provincial drought led to a growth in extrapolated real GDP of just 0.9% between 2008 and 2009, and unchanged GDP per capita in those years. In addition, as economic activity slowed, unemployment grew to 8.5% in 2008 and 9.8% in 2009. In the twelve months ended September 30, 2010, extrapolated provincial real GDP was ARS 150.51 billion. In addition, unemployment fell to 8.8% in the third quarter of 2010.

The Province has a diversified economy. The Province's most significant economic production sectors are (i) manufacturing, (ii) real estate and business activities, (iii) retail and wholesale commerce, (iv) transport, storage and communications, (v) education, social and health services, (vi) construction, and (vii) agriculture, livestock, hunting and forestry. Historically, the Province's manufacturing sector is the single largest contributor to provincial GDP. The manufacturing sector is highly diversified and, historically, food and beverage production and chemicals have been the most significant contributors to production within this sector. Although all areas of manufacturing were severely affected by the economic crisis in 2001, the

Province's manufacturing sector has recovered significantly since 2003. The manufacturing sector represented approximately 25.3% of the Province's total real GDP in 2006, the last year for which official data was available. The Province's 2006 manufacturing output of ARS 26.93 billion represents 49.0% of Argentina's total manufacturing output in the same period.

### ***Public Sector Finances***

The Province's fiscal policy since the 2001 national economic crisis has focused on preserving the financial liquidity of the Province. The Province evaluates its fiscal policy based on its primary balance. The Province recorded primary balance deficits in 2001 and 2002, as Argentina's economic recession, which began in 1998, deepened and Argentina entered a state of severe economic crisis in 2001. The Province's primary balance deficit declined in 2002 and the Province recorded increasing primary balance surpluses in each of 2003 and 2004 as Argentina's economic recovery, which began in the second half of 2002, broadened and accelerated, despite an increase in the Province's expenditures during this period. In 2005, however, the Province recorded a small decline in its primary balance surplus, as compared to 2004, despite a significant increase in revenues during 2005. The Province experienced a significant decline in its primary balance surplus in 2006 as compared to 2005, as its expenditures grew at a faster rate than its revenues during these periods. Personnel expenditures, in particular, increased significantly in 2005 and 2006 compared to prior years due to the cumulative effect of the implementation of measures in 2005, and to a lesser extent, the implementation of measures adopted in each of 2003 and 2004, each of which was intended to alleviate the situation of the Province's employees following the salary freeze and subsequent devaluation and inflation that resulted from the economic crisis. These measures, taken together with similar measures adopted in March 2006, have succeeded in realigning the compensation of provincial employees with pre-crisis levels, measured in terms of purchasing power. In 2007, the primary balance surplus temporarily recovered due to a substantial increase in tax revenues related to increased economic activity in the Province, which more than offset a substantial increase in public employment during this period. However, in 2008, the primary balance moved from a surplus to a deficit due to continued increases in expenditures related primarily to salary increases for public employees. This trend continued in 2009, with the cumulative effect of salary increases resulting in expenditures increasing faster than the increase in revenues, resulting in a primary deficit of ARS 4.34 billion.

The initial 2010 Budget Law, as amended, forecasted a smaller primary balance deficit of ARS 4.11 billion for 2010, due mainly to increased revenues resulting from tax law reforms and an expected general increase in economic activity, which were budgeted to more than offset increases in public expenditures primarily relating to salary increases for public employees. As of September 30, 2010, a primary deficit of ARS 2.80 billion had accrued. In October 2010 the 2010 budget was amended to increase total expenditures by ARS 5.31 billion, of which ARS 3.71 billion would be financed with additional self-generated revenues (such as taxes) and ARS 1.60 billion would be financed with additional borrowing incurred by the Province, increasing the primary balance deficit to ARS 5.71 billion. Although the Province has not yet determined the final fiscal results for 2010, it projects a primary fiscal balance deficit of ARS 693 million as a result of higher-than-expected revenues. The 2011 Budget Law forecasted a greater primary deficit of ARS 2.85 billion when compared to the projected primary balance deficit of ARS 693 million for 2010.

### ***Main Sources of Revenues***

From 2005 through 2009, approximately 73.0% of the Province's revenues were derived from taxes, either federal or provincial. On average, during this period, provincial tax collections represented 39.2% of total revenues, while federal tax transfers represented 33.3% of total revenues.

*Federal transfers.* The federal government is required by law to transfer to a federal co-participation fund 64.0% of income tax revenues, 89.0% of value added tax revenues and 100% of presumptive minimum income tax and excise tax revenues and revenues from certain other minor taxes and 30.0% of financial transaction tax revenues. Under the federal tax co-participation system, ARS 549.6 million is allocated to the *Fondo de Desequilibrios Fiscales Provinciales* (Provincial Tax Imbalance Fund). After this allocation, 15.0% of all remaining funds are allocated to the federal social security system. The balance of these funds is distributed among the federal government, the City of Buenos Aires and the provinces, with approximately 42.3% of the balance being allocated to the federal government for its other needs, for the Province of Tierra del Fuego and for transfers to the City of Buenos Aires, 1.0% being allocated to an emergency fund, and approximately 56.7% being allocated to the provinces to be shared among them according to percentages set forth in the federal tax co-participation law. The Province is currently entitled to 21.7% of funds allocated to the provinces under the co-participation regime.

The Province is also entitled to receive specified additional amounts of federal tax transfers pursuant to special laws intended to address the greater needs of the Province, which are funded with designated sources of federal tax revenues. These transfers, however, are capped or subject to limits that have been reached over time, and the remainder of these tax revenues is distributed among all the provinces in accordance with the co-participation law, leading to a further dilution in the Province's share of total federal tax transfers (including tax co-participation transfers). Accordingly, although the Province receives 21.7% of distributable co-participation tax revenues, the Province receives a relatively smaller percentage of the total federal tax transfers to the provinces. The Province has repeatedly requested an increase in the funds allocated to the provinces under the tax co-participation regime to ensure that each province is able to offer essential public services to its population, but its efforts to increase its allocation of tax co-participation funds have been unsuccessful.

In addition, the Province records other, non-refundable payments or transfers from the federal government as federal contributions. These contributions consist primarily of discretionary transfers to the provinces, known as *Aportes del Tesoro Nacional* (Contributions from the National Treasury), to meet special or emergency needs or to finance certain expenditures of national interest. Moreover, the Province is entitled to receive transfers from the federal government from time to time to finance deficits in the provincial pension system, in exchange for a commitment on the part of the Province to harmonize its social security system with the federal social security system. The Province has also relied on these contributions from the federal government to fill its budget gaps, in particular, funds from the federal government, to bolster the provincial pension system.

### ***Provincial Revenues.***

Historically, the main source of provincial tax revenues has been the collection of the following five main taxes:

- gross revenues tax, which is the single largest source of provincial tax revenue,
- real estate tax,
- tax on automobiles registered in the Province,
- stamp tax levied on several categories of agreements and transactions entered into within the territory of the Province, and
- energy tax.

In 2010, the Province also approved a tax on gratuitous transfers of property, such as inheritances, legacies and gifts.

The Province also derives non-tax revenues from various provincial sources, including transfers of net profits or surpluses from provincial entities such as the Institute of Lotteries and Casinos and the Loan Recovery Committee, fees collected by the provincial judicial system, interest accrued on the Province's deposits with Banco Provincia and on loans granted to municipalities or other unconsolidated provincial agencies and enterprises, and proceeds from the lease of provincial land.

### ***Composition of Expenditures***

The Province's expenditures are allocated to education, health programs, social programs, municipalities, investments in public infrastructure and services, police, courts, prisons and general provincial administration. Combined spending on education, health programs, social programs, investments in public infrastructure and services, police, courts and prisons and general provincial administration accounted for approximately 70.0% of the Province's total expenditures in 2009.

Current expenditures consist of costs of personnel, goods and services and current transfers. Personnel expenditures comprise the largest component of the Province's total expenditures, representing approximately one half of total expenditures in each year since 2005. Personnel expenditures have increased significantly in recent periods due to salary increases and a substantial increase in public employment from 2005 to 2007 related to new government initiatives. In 2005, personnel expenditures amounted to ARS 9.63 billion, compared to ARS 28.41 billion in 2009. Personnel expenditures in the nine months ended September 30, 2010 amounted to ARS 24.66 billion.

Capital expenditures include real direct investment, loans and capital contributions to provincial enterprises and loans and transfers to municipalities for public works.

### ***The 2011 Budget***

Pursuant to the constitution of the Province, the executive branch must submit a draft budget law for each upcoming year during the prior year. The budget represents an estimation of future revenues and also constitutes an authorization of, and a limit on, expenditures and indebtedness by the Province for the budgeted

period. The provincial legislature has broad powers to amend or reject the draft budget law submitted by the executive branch.

The executive branch of the Province submitted its proposed budget for 2011 to the legislature on October 25, 2010. On December 2, 2010, the provincial legislature passed the 2011 budget into law (Law No. 14,199) as proposed by the executive branch.

The 2011 budget forecasts a primary balance deficit of ARS 2.85 billion, as compared to a primary balance deficit of ARS 5.71 billion from the amended 2010 budget, and a total deficit of ARS 5.05 billion in 2011 as compared to a total deficit of ARS 6.99 billion in the amended 2010 budget. The Province expects to finance the projected total deficit, plus ARS 3.60 billion in scheduled debt repayments and other indebtedness reduction in 2011 with borrowings of ARS 8.60 billion, primarily from the local and international capital markets, the federal government, and to a lesser extent from multilateral lenders and other sources. The Province intends to cover the remaining amount of its financing needs in 2011, if any, with any cash resources then available, including any allocated but unspent funds recorded in prior years, and by seeking new borrowings.

### ***Public Sector Debt***

The Province satisfies its financing needs with a wide variety of sources depending on the provincial and federal economies and the domestic and international financing markets. Prior to 2001, the Province obtained a significant portion of its financing from international and domestic capital markets. In addition, the Province used loans from multilateral, bilateral and commercial lenders, including Banco Provincia. Following the devaluation of the peso in 2001, the Province was unable to access its traditional financing sources. Therefore, since 2002, the federal government has become the Province's main source of financing and, consequently, the Province's largest creditor.

As of December 31, 2009, the Province's total indebtedness amounted to USD 12.20 billion and decreased to USD 10.97 billion as of September 30, 2010. The federal government holds 56.9% of the Province's debt, local and international bondholders hold 34.3%, multilateral credit agencies hold 7.4% and the remaining 1.4% of the Province's debt is held by other creditors.

### ***Evolution of Debt: 2005 to the Present***

Between 2005 and 2009, the federal government's share of the Province's public debt has been between 60.0% and 62.4%. The federal government's assistance has been provided under agreements, which between 2002 and 2004 were called the Orderly Financing Programs, and which since 2005 have been called the Financial Assistance Program. These programs help fund the Province's debt amortization expenses. In addition, the Province has entered into debt offsetting, refinancing and interest suspension agreements with the federal government. The Province has also entered into agreements with the Trust Fund for Provincial Development to invest in capital assets.

Another important milestone in the history of the Province's indebtedness was the provincial restructuring process of Eurobonds, which have been in default since December 2001, and which was completed in January 2006. This debt restructuring helped the Province to return to the international capital markets in October 2006 and April 2007.

The favorable conditions of the loan agreements with the federal governments as well as the provincial debt restructuring process have helped the Province improve its debt maturity profile and debt sustainability indicators.

Between December 31, 2007 and December 31, 2008, the consolidated provincial debt stock increased by approximately ARS 3.55 billion, or 9.6%, to ARS 40.59 billion. Between December 31, 2008 and December 31, 2009, the provincial debt stock increased by approximately ARS 5.76 billion, or 14.2%, to ARS 46.35 billion.

During the first nine months of 2010, the consolidated debt stock of the Province fell by 6.2%, or ARS 2.89 billion, to ARS 43.46 billion. The decrease in the provincial debt stock during the nine months ended September 30, 2010 was mainly due to:

- refinancing or reduction of ARS 27.48 billion of the debt with the federal government; and
- debt amortization with the federal government for ARS 1.67 billion and other amortizations for ARS 1.06 billion.

These effects were partly offset by:

- new debt with the federal government for ARS 23.86 billion due to the refinancing referred to above; and
- the impact of inflation on the debt denominated in Pesos and adjusted by CER, which increased the debt stock by ARS 762 million; and new disbursements for ARS 2.29 billion.

### ***Argentine Provincial Indebtedness Federal Refinancing Program***

On May 10, 2010, the federal government issued decree 660/10, creating the *Programa Federal del Desendeudamiento de las Provincias Argentinas* (Argentine Provincial Indebtedness Federal Refinancing Program, or the “Federal Debt Refinancing Program”). The Federal Debt Refinancing Program:

- reduces indebtedness owed by provinces to the federal government by applying funds held in the *Fondo de Aportes del Tesoro Nacional* (the National Treasury Support Fund) as of December 31, 2009 to reduce, on a pro rata basis, the indebtedness of provinces that agreed to participate in the Federal Debt Refinancing Program prior to May 31, 2010; and
- allows provinces to refinance indebtedness held with the federal government as of May 31, 2010 under the *Ley de Responsabilidad Fiscal* (Fiscal Responsibility Law), the Trust Fund for Provincial Development, PUM, Financial Assistance Program (PAF), Interest Suspension Agreements, *Bogar*, and *Boden*.

On May 12, 2010, the Province indicated to the federal government that it would participate in this program. The Province and the federal government signed a bilateral agreement memorializing the Province’s participation in the Federal Debt Refinancing Program on June 23, 2010, which was approved by Decree 903/10. The Federal Debt Refinancing Program eliminated all provincial CER-adjusted debt owed to the federal government. For more information on the Federal Debt Refinancing Program, see “Public Sector Debt—Debt Denominated in Pesos—Argentine Provincial Indebtedness Federal Refinancing Program”.

### ***October 2010 Issuance of Eurobonds***

On October 5, 2010, the Province issued bonds due in 2015 for USD 550 million. This issuance was reopened on October 20, 2010, and an additional USD 250 million of bonds due in 2015 were issued. These bonds have a coupon of 11.75% and amortize in a single payment upon maturity. Interest on the bonds is paid semiannually in April and October of each year.

### ***2010 Financial Assistance Program***

On December 21, 2010, the federal government and the Province entered into a financial assistance program whereby the federal government granted the Province a ARS 5.06 billion loan for the purpose of meeting fiscal imbalances and making debt service payments. For more information on this loan, see “Public Sector Debt—Debt Denominated in Pesos—Financial Assistance Program (PAF)”.

### ***Banco Provincia***

Banco Provincia is the oldest bank in Latin America and is the second largest bank in Argentina in terms of total deposits and assets. As of September 30, 2010, Banco Provincia had deposits of ARS 30.54 billion (representing 8.9% of the total deposit base of Argentina) and total assets of ARS 36.27 billion. The Province is the sole owner of Banco Provincia.

Banco Provincia is an *entidad autárquica* (self-administered public institution) governed by a board of directors appointed by the Governor of the Province with the approval of the provincial Senate. Banco Provincia acts as the financial agent of the Province and collects provincial taxes and duties on the Province’s behalf. The Province guarantees all deposits and other liabilities of Banco Provincia. However, creditors of Banco Provincia that seek to enforce the guarantee must exhaust all legal remedies against Banco Provincia before requesting payment from the Province under the guarantee.

Although Banco Provincia is exempt from compliance with Argentine financial and banking regulations, it voluntarily adheres to the regulatory framework of the Argentine financial sector and therefore complies with the banking regulations and rules adopted by the Central Bank, including minimum capital, solvency and liquidity requirements and the supervisory powers of the Central Bank. Because of its special status as a provincial self-administered public institution, Banco Provincia is not subject to any federal income or other tax liability.

At September 30, 2010, Banco Provincia’s exposure to the public sector totaled approximately ARS 12.67 billion, accounting for approximately 34.9% of its total assets at that date