BANCO Hipotecario

# Consolidated Financial Statements as of December 31, 2018

**Together with independent auditors' review reports and Supervisory Committee's reports on Financial Statements**

**CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018**

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**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders and Directors of
***Banco Hipotecario Sociedad Anónima***
Registered office: Reconquista 151
Autonomous City of Buenos Aires
Tax Payer's Code (CUIT) – 30-50001107-2

**Report on financial statements**

We have audited the attached consolidated financial statements of Banco Hipotecario S.A. (hereinafter, the "Bank"), which includes the consolidated balance sheet as of December 31, 2018, the respective consolidated statements of income and other comprehensive income, the consolidated statement of changes in shareholders' equity, and the consolidated statement of cash flows for the fiscal year then ended, as well as a summary of the significant accounting policies and other explanatory information included in supplementary notes and schedules.

The balances and other information for fiscal year 2017 are an integral part of the above-mentioned audited financial statements, and, therefore, shall be considered in relation to those financial statements.

## Board of Directors' Responsibility

The Bank's Board of Directors is responsible for the preparation and issuance of the financial statements in accordance with the accounting framework set forth by the Argentine Central Bank. The Board of Directors is also responsible for the existence of such internal controls as it deems necessary to allow the preparation of financial statements free from significant misstatements arising from mistakes or irregularities.

## Auditors' Responsibility

Our responsibility is rendering an opinion on the attached consolidated financial statements, based on our audit. We conducted our examinations in accordance with the auditing standards of Argentina set forth by Technical Resolution No. 37 of the Argentine Federation of Professional Councils in Economic Sciences (*Federación Argentina de Consejos Profesionales de Ciencias Económicas*, FACPCE), and with the auditing standards issued by the Argentine Central Bank. These standards require that we comply with ethics requirements, and that we plan and perform the audit in order to obtain reasonable assurance that the consolidated financial statements are free from significant misstatements.

An audit comprises the use of procedures to obtain judgment elements concerning the figures and other information contained in the financial statements. The selected procedures depend on the auditor's judgment, which includes a risk assessment of significant misstatements in the financial statements. In making such risk assessment, the auditor must consider the relevant internal controls relevant to the preparation and issuance of the financial statements by the Bank, with the aim of designing appropriate auditing procedures, according to the circumstances, and not with the aim of rendering an opinion on the efficiency of the Bank's internal controls. An audit also comprises an evaluation of the adequacy of the accounting policies applied, the reasonableness of the management's accounting estimates, and the overall presentation of the financial statements.

We consider that the judgment elements obtained provide a sufficient and appropriate basis for our opinion.

## Opinion

In our opinion the attached consolidated financial statements present fairly, in all relevant aspects, the consolidated financial condition of Banco Hipotecario S.A. and its subsidiaries as of December 31, 2018, as well as the consolidated comprehensive income and consolidated cash flows for the fiscal year then ended, in accordance with the accounting standards set forth by the Argentine Central Bank.

## Emphasis Paragraph

Without changing our opinion, as stated in Note No. 2, the attached financial statements have been prepared in accordance with the accounting framework set forth by the Argentine Central Bank. Said regulations differ from the professional accounting standards in force. The impact on said financial statements as a result of the different valuation and presentation criteria has been identified by the Bank in said note.

## Paragraph on other matters

Without changing our opinion, we draw attention to the fact that these financial statements were prepared in accordance with the accounting framework set forth by the BCRA, and that said framework significantly and generally differs from the professional accounting standards in force (International Financial Reporting Standards (IFRS) adopted by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE)). These differences lie in that the accounting framework set forth by the BCRA does not provide for the application of item 5.5

“Impairment” of IFRS 9 “Financial Instruments”, nor of International Accounting Standard No. 29 “Financial reporting in hyperinflationary economies”. The Bank has not quantified these differences in a note to these financial statements. The financial statements should be read, for their correct interpretation, in the light of these circumstances.

**Report on compliance with regulations in force**

In compliance with regulations in force, we report that:

a) Banco Hipotecario S.A.’s consolidated financial statements as of December 31, 2018, appear on the “Inventory and Balance Sheet” book and comply, insofar as concerns our field of competence, with the provisions of the Argentine Companies Act and the pertinent resolutions of the BCRA and the Argentine Securities Commission.

b) Banco Hipotecario S.A.’s consolidated financial statements arise from accounting records kept in all formal respects as set forth in currently applicable laws, which conform to the conditions of security and completeness based on which they were authorized by the Argentine Securities Commission;

c) We have read the information summary and the information additional to the notes to the financial statements required by Section 12, Chapter III, Title IV, as amended by the Argentine Securities Commission, upon which, insofar as concerns our field of competence, there are no observations to make.

d) As of December 31, 2018, the liabilities accrued in favor of Banco Hipotecario S.A.’s Argentine Comprehensive Social Security System, according to the Bank’s accounting records amounted to $ 67,439,704, with said amount not being payable as of such date.

e) By virtue of the requirements imposed by Section 21, subsection b), Chapter III, Section VI, Title II of the CNV’s rules, we hereby report that the total fees for audit and related services invoiced to the Bank in the fiscal year ended on December 31, 2018 represent:

   e.1) 95% of the total fees invoiced to the Bank for all services in that fiscal year;

   e.2) 69% of the total fees for audit and related services invoiced to the

Bank, its parent companies, subsidiaries and related companies in that fiscal year;

e.3) 67% of the total fees for all the services invoiced to the Bank, its parent companies, subsidiaries and related companies in that fiscal year;

f) We have read the information included in Note No. 31 to the consolidated financial statements as of December 31, 2018, as regards the requirements set forth by the Argentine Securities Commission concerning Minimum Shareholders' Equity and its Balancing Amount in respect of which, insofar as concerns our field of competence, there are no observations to make.

Autonomous City of Buenos Aires, March 6, 2019.

PRICE WATERHOUSE & CO. S.R.L.

(Partner)

C.P.C.E.C.A.B.A. Volume 1 – Page 17

Dr. Diego L. Sisto
Public Accountant (UCA)
C.P.C.E.C.A.B.A
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**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders and Directors of
***Banco Hipotecario Sociedad Anónima***
Registered office: Reconquista 151
Autonomous City of Buenos Aires
Tax Payer's Code (CUIT) – 30-50001107-2

**Report on financial statements**

We have audited the attached separate financial statements of Banco Hipotecario S.A. (hereinafter, the "Bank"), which includes the separate balance sheet as of December 31, 2018, the respective separate statements of income and other comprehensive income, the separate statement of changes in shareholders' equity, and the separate statement of cash flows for the fiscal year then ended, as well as a summary of the significant accounting policies and other explanatory information included in supplementary notes and schedules.

The balances and other information for fiscal year 2017 are an integral part of the above-mentioned audited financial statements, and, therefore, shall be considered in relation to those financial statements.

## Board of Directors' Responsibility

The Bank's Board of Directors is responsible for the preparation and issuance of the financial statements in accordance with the accounting framework set forth by the Argentine Central Bank. The Board of Directors is also responsible for the existence of such internal controls as it deems necessary to allow the preparation of financial statements free from significant misstatements arising from mistakes or irregularities.

## Auditors' Responsibility

Our responsibility is rendering an opinion on the attached separate financial statements, based on our audit. We conducted our examinations in accordance with the auditing standards of Argentina set forth by Technical Resolution No. 37 of the Argentine Federation of Professional Councils in Economic Sciences (*Federación Argentina de Consejos Profesionales de Ciencias Económicas*, FACPCE), and with the auditing standards issued by the Argentine Central Bank. These standards require that we comply with ethics requirements, and that we plan and perform the audit in order to obtain reasonable assurance that the separate financial statements are free from significant misstatements.

An audit comprises the use of procedures to obtain judgment elements concerning the figures and other information contained in the financial statements. The selected procedures depend on the auditor's judgment, which includes a risk assessment of significant misstatements in the financial statements. In making such risk assessment, the auditor must consider the relevant internal controls relevant to the preparation and issuance of the financial statements by the Bank, with the aim of designing appropriate auditing procedures, according to the circumstances, and not with the aim of rendering an opinion on the efficiency of the Bank's internal controls. An audit also comprises an evaluation of the adequacy of the accounting policies applied, the reasonableness of the management's accounting estimates, and the overall presentation of the financial statements.

We consider that the judgment elements obtained provide a sufficient and appropriate basis for our opinion.

**Opinion**

In our opinion the attached separate financial statements present fairly, in all relevant aspects, the separate financial condition of Banco Hipotecario S.A. as of December 31, 2018, the separate comprehensive income and separate cash flows for the fiscal year then ended, in accordance with the accounting standards set forth by the Argentine Central Bank.

**Emphasis Paragraph**

Without changing our opinion, as stated in Note No. 2, the attached financial statements have been prepared in accordance with the accounting framework set forth by the Argentine Central Bank. Said regulations differ from the professional accounting standards in force. The impact on said financial statements as a result of the different valuation and presentation criteria has been identified by the Bank in said note.

**Paragraph on other matters**

Without changing our opinion, we draw attention to the fact that these financial statements were prepared in accordance with the accounting framework set forth by the BCRA, and that said framework significantly and generally differs from the professional accounting standards in force (International Financial Reporting Standards (IFRS) adopted by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE)). These differences lie in that the accounting framework set forth the BCRA does not provide for the application of item 5.5 "Impairment" of IFRS 9 "Financial Instruments", nor of International Accounting Standard No. 29 "Financial reporting in hyperinflationary economies". The Bank has not quantified these differences in a note to these financial statements. The financial statements should be read, for their correct interpretation, in the light of these circumstances.

**Report on compliance with regulations in force**

In compliance with regulations in force, we report that:

a) Banco Hipotecario S.A.'s separate financial statements as of December 31, 2018, appear on the "Inventory and Balance Sheet" book and comply, insofar as concerns our field of competence, with the provisions of the Argentine Companies Act and the pertinent resolutions of the BCRA and the Argentine Securities Commission.

b) Banco Hipotecario S.A.'s separate financial statements arise from accounting records kept in all formal respects as set forth in currently applicable laws, which conform to the conditions of security and completeness based on which they were authorized by the Argentine Securities Commission;

c) We have read the information summary and the information additional to the notes to the financial statements required by Section 12, Chapter III, Title IV, as amended by the Argentine Securities Commission, upon which, insofar as concerns our field of competence, there are no observations to make.

d) As of December 31, 2018, the liabilities accrued in favor of Banco Hipotecario S.A.'s Argentine Comprehensive Social Security System, according to the Bank's accounting records amounted to $ 67,439,704, with said amount not being payable as of such date.

e) By virtue of the requirements imposed by Section 21, subsection b), Chapter III, Section VI, Title II of the CNV's rules, we hereby report that the total fees for audit and related services invoiced to the Bank in the fiscal year ended on December 31, 2018 represent:

e.1) 95% of the total fees invoiced to the Bank for all services in that fiscal year;

e.2) 69% of the total fees for audit and related services invoiced to the Bank, its parent companies, subsidiaries and related companies in that fiscal year;

e.3) 67% of the total fees for all the services invoiced to the Bank, its parent companies, subsidiaries and related companies in that fiscal year;

f) We have read the information included in Note No. 30 to the separate financial statements as of December 31, 2018, as regards the requirements set forth by the Argentine Securities Commission concerning Minimum Shareholders' Equity and its Balancing Amount in respect of which, insofar as concerns our field of competence, there are no observations to make.

Autonomous City of Buenos Aires, March 6, 2019.

PRICE WATERHOUSE & CO. S.R.L.

(Partner)

C.P.C.E.C.A.B.A. Volume 1 – Page 17

Dr. Diego L. Sisto
Public Accountant (UCA)
C.P.C.E.C.A.B.A
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**BANCO HIPOTECARIO S.A.**

| | |
|---|---|
| Registered office: | Reconquista 151 – City of Buenos Aires – Argentine Republic |
| Main activity: | Banking |
| Taxpayer's Code (CUIT): | 30 - 50001107– 2 |
| Bylaws' Registration Date with the Public Registry of Commerce: | September 28, 1997 |
| Registration date of latest amendment to the bylaws: | August 23, 2018 (No.15,792 of book 91 of stock companies) |
| Expiration date of Bylaws: | 99 years from the date of incorporation (September 28, 1997) |

| **Stock capital composition as of 12/31/2018** | | | | | | |
|---|---|---|---|---|---|---|
| Shares | | | | | | |
| Number | Type | Face value | No. of votes per share | Class | Subscribed | Paid-in |
| | | | | | (In thousands of Ps.) | |
| 664,489,424 | Book-entry common shares | 1 | 1 | A | 664,489 | 664,489 |
| 57,009,279 | | 1 | 1 | B | 57,009 | 57,009 |
| 75,000,000 | | 1 | 1 | C | 75,000 | 75,000 |
| 703,501,297 | | 1 | 3 | D | 703,502 | 703,502 |
| **1,500,000,000** | | | | | **1,500,000** | **1,500,000** |

## CONSOLIDATED BALANCE SHEET

For the fiscal year ended 12/31/2018, comparative as of 12/31/2017 and 01/01/2017

In thousands of Argentine Pesos

| ITEM | NOTES | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Cash and bank deposits (Schedule P)** | 5 and 6 | **8,832,786** | **3,951,549** | **7,346,629** |
| Cash | | 1,393,427 | 933,666 | 756,704 |
| Financial institutions and correspondents | | 6,571,467 | 2,877,076 | 6,589,925 |
| - Argentine Central Bank (B.C.R.A.) | | 4,773,649 | 2,421,833 | 5,355,489 |
| - Other domestic and foreign institutions | | 1,797,818 | 455,243 | 1,234,436 |
| Other | | 867,892 | 140,807 | - |
| **Debt securities at fair value through profit or loss (Schedule P)** | 6 | **19,287,877** | **14,867,830** | **3,633,174** |
| **Derivative instruments (Schedule P)** | 6 and 8 | **69,478** | **46,217** | **169,717** |
| **Repo transactions (Schedule P)** | 6 | **589,474** | **115,164** | **168,083** |
| **Other financial assets (Schedule P)** | 6 and 9 | **2,311,097** | **1,735,715** | **2,090,802** |
| **Loans and other financing arrangements (Schedules B, C, D, P)** | 6 and 7 | **43,566,664** | **39,344,559** | **31,668,960** |
| Non-Financial Public Sector | | 29,146 | 89,573 | 153,032 |
| Other Financial Institutions | | 415,506 | 455,718 | 635,772 |
| Non-Financial Private Sector and Foreign Residents | | 43,122,012 | 38,799,268 | 30,880,156 |
| **Other debt securities (Schedule P)** | 6 | **1,700,018** | **618,151** | **700,958** |
| **Financial assets pledged as collateral (Schedule P)** | 6 | **2,007,114** | **2,187,842** | **2,949,739** |
| **Current income tax assets** | 14 | **445,076** | **203,009** | **114,192** |
| **Investments in equity instruments (Schedule P)** | 6 | **187,475** | **213,616** | **100,286** |
| **Investments in subsidiaries, associates and joint ventures** | 15 | **13,364** | **10,854** | **13,977** |
| **Bank premises and equipment (Schedule F)** | 12 | **1,497,432** | **2,819,167** | **1,435,298** |
| **Intangible assets (Schedule G)** | 13 | **145,268** | **125,553** | **98,295** |
| **Deferred income tax assets** | 14 | **47,339** | **11,165** | **-** |
| **Other non-financial assets** | 11 | **3,861,103** | **314,862** | **532,367** |
| **TOTAL ASSETS** | | **84.561.565** | **66,565,253** | **51,022,477** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………(Partner)
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**CONSOLIDATED BALANCE SHEET**

For the fiscal year ended 12/31/2018, comparative as of 12/31/2017 and 01/01/2017
In thousands of Argentine Pesos

| ITEM | NOTES | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| **Deposits (Schedules H, I, P)** | 6 | **29,307,580** | **20,803,763** | **17,736,483** |
| Non-financial public sector | | 3,625,037 | 2,399,321 | 1,723,901 |
| Financial sector | | 1,508 | 1,790 | 1,073 |
| Non-financial private sector and foreign residents | | 25,680,035 | 18,402,652 | 16,011,509 |
| **Liabilities at fair value through profit or loss(Schedule I, P)** | 6 | **751,511** | **-** | **-** |
| **Derivative instruments (Schedules I, P)** | 6 and 8 | **136,281** | **65,756** | **187,108** |
| **Repo transactions (Schedules I, P)** | 6 | **65,188** | **1,061,552** | **1,752,267** |
| **Other financial liabilities (Schedules I, P)** | 6 and 16 | **7,547,776** | **5,809,110** | **4,653,565** |
| **Loans from the B.C.R.A. and other financial institutions (Schedules I, P)** | 6 | **657,696** | **496,001** | **707,463** |
| **Negotiable obligations issued (Schedules I, P)** | 6 and 15 | **31,660,467** | **26,589,820** | **16,575,726** |
| **Current income tax liabilities** | | **434,006** | **168,092** | **175,924** |
| **Subordinated negotiable obligations** | 6 and 15 | **-** | **-** | **146,716** |
| **Provisions** | 18 | **306,876** | **397,633** | **276,587** |
| **Deferred income tax liabilities** | 14 | **-** | **-** | **46,819** |
| **Other financial liabilities** | 17 | **3,603,000** | **2,938,440** | **2,200,099** |
| **TOTAL LIABILITIES** | | **74,470,381** | **58,330,167** | **44,458,757** |
| **SHAREHOLDERS' EQUITY** | | | | |
| Capital stock (Schedule K) | 19 | 1,500,000 | 1,500,000 | 1.500.000 |
| Non-capitalized contributions | | 28,381 | 834 | 834 |
| Capital adjustments | | 717,115 | 717,115 | 717.115 |
| Reserves | | 5,644,012 | 4,277,900 | 2.059.361 |
| Unappropriated retained earnings | | (142,120) | 320,826 | 1.507.194 |
| Accumulated other comprehensive income | | - | - | - |
| Income for the year | | 2,051,412 | 1,130,490 | 615.324 |
| **Shareholders' equity attributable to parent's shareholders** | | **9,798,800** | **7,947,165** | **6.399.828** |
| **Shareholders' equity attributable to non-controlling interests** | 20 | **292,384** | **287,921** | **163.892** |
| **TOTAL SHAREHOLDERS' EQUITY** | | **10,091,184** | **8,235,086** | **6,563,720** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **84,561,052** | **66,565,253** | **51,022,477** |

Notes and schedules are an integral part of these consolidated financial statements.

| | | |
|---|---|---|
| **Lorena C. Morchón**<br>General Accounting Manager | **Manuel J.L. Herrera Grazioli**<br>General Manager | See our report dated<br>March 6, 2019<br>PRICE WATERHOUSE & Co. S.R.L. |
| **Saúl Zang**<br>Second Vice-Chairman acting as Chairman | **Ricardo Flammini**<br>For the Supervisory Committee | ………………………..(Partner)<br>C.P.C.E.C.A.B.A. Volume 1 - Page 17 |

BANCO Hipotecario

## CONSOLIDATED STATEMENT OF INCOME

For the fiscal years ended 12/31/2018 and 12/31/2017

In thousands of Argentine Pesos

| ITEM | NOTES | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| Interest and adjustments income (Schedule Q) | 21 | 14,897,228 | 10,250,699 |
| Interest and adjustments expense (Schedule Q) | 22 | (12,732,984) | (6,252,447) |
| **Net interest income** | | **2,164,244** | **3,998,252** |
| Fee and commission income (Schedule Q) | 21 | 4,152,620 | 3,599,433 |
| Fee and commission expense (Schedule Q) | | (684,855) | (599,506) |
| **Net fee and commission income** | | **3,467,765** | **2,999,927** |
| Net income from measurement of financial instruments at fair value through profit or loss (Schedule Q) | | 5,929,976 | 1,800,264 |
| Gold and foreign currency quotation differences | 23 | (710,852) | (96,097) |
| Other operating income | 24 | 4,350,734 | 3,708,942 |
| Loan loss provision (Schedule R) | | (1,828,873) | (1,162,583) |
| **Net operating income** | | **13,372,994** | **11,248,705** |
| Employee benefits | 26 | (3,800,363) | (3,838,011) |
| Administrative expenses | 25 | (3,050,621) | (2,611,727) |
| Depreciation and impairment of assets | | (444,200) | (144,968) |
| Other operating expenses | 24 | (3,265,434) | (3,007,871) |
| **Operating income** | | **2,812,376** | **1,646,128** |
| Share of profit (loss) of subsidiaries, associates and joint ventures | | - | - |
| **Income before tax** | | **2,812,376** | **1,646,128** |
| Income tax | 14 | (754,281) | (518,249) |
| **Net income** | | **2,058,095** | **1,127,879** |
| **NET INCOME FOR THE YEAR** | | **2,058,095** | **1,127,879** |

| | | |
|---|---|---|
| **Net income for the year attributable to the parent's owners** | 2,051,412 | 1,130,490 |
| **Net income for the year attributable to non-controlling interests** | 6,683 | (2,611) |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

………………………..(Partner)
C.P.C.E.C.A.B.A. Volume 1 Page 17

## CONSOLIDATED STATEMENT OF INCOME

For the fiscal years ended 12/31/2018 and 12/312017

In thousands of Argentine Pesos

| EARNINGS PER SHARE | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **NUMERATOR** | | |
| Net income attributable to the parent company's shareholders | 2,051,412 | 1,130,490 |
| PLUS: Effect of dilution inherent in potential common shares | - | - |
| Net income attributable to the parent company's shareholders adjusted to reflect the effect of dilution | 2,051,412 | 1,130,490 |
| **DENOMINATOR** | | |
| Weighted average of outstanding common shares for the fiscal year | 1,464,670 | 1,463,365 |
| PLUS: Weighted average of additional common shares with diluting effects | - | - |
| Weighted average of outstanding common shares for the fiscal year adjusted to reflect the effects of dilution | 1,464,670 | 1,463,365 |
| **EARNINGS PER BASIC SHARE** | **1.401** | **0.773** |
| **EARNINGS PER DILUTED SHARE** | **1.401** | **0.773** |

Notes and schedules are an integral part of these consolidated financial statements.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

………………………..(Partner)
C.P.C.E.C.A.B.A. Volume 1 Page 17

BANCO Hipotecario

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the fiscal years ended 12/31/2018 and 12/31/2017
In thousands of Argentine Pesos

| ITEM | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Net income for the year** | **2,058,095** | **1,127,879** |
| **Total other comprehensive income for the year** | **-** | **-** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **2,058,095** | **1,127,879** |

| | | |
|---|---|---|
| **Total comprehensive income for the year attributable to the parent's owners** | 2,051,412 | 1,130,490 |
| **Total comprehensive income/(loss) for the year attributable to non-controlling interests** | 6,683 | (2,611) |

Notes and schedules are an integral part of these consolidated financial statements.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

………………………..(Partner)
C.P.C.E.C.A.B.A. Volume 1 Page 17

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the fiscal year ended 12/31/2018

In thousands of Argentine Pesos

| Changes | Capital Stock | | Non-capitalized Contributions | | Equity adjustments | Profit reserves | | | Retained earnings | Total Shareholders' Equity controlling interests 12/31/2018 | Total Shareholders' Equity non-controlling interests 12/31/2018 | Total as of 12/31/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding | Treasury Stock | Share issuance premium | Stock-based payment | | Legal | Stock-based payments | Others | | | | |
| **Opening balances for the year** | **1,463,365** | **36,635** | **834** | **-** | **717,115** | **1,129,962** | **439,617** | **2,708,321** | **1,451,316** | **7,947,165** | **287,921** | **8,235,086** |
| Allocation of retained earnings-Approved by Shareholders' Meeting dated 04/09/2018 | | | | | | | | | | | | |
| -Legal reserve | - | - | - | - | - | 318,687 | - | - | (318,687) | - | - | - |
| -Other reserves | - | - | - | - | - | - | - | 1,274,749 | (1,274,749) | - | - | - |
| -Cash dividends | - | - | - | - | - | - | - | (199,777) | - | (199,777) | - | (199,777) |
| Stock-based payment under Compensation Plan | 2,296 | (2,296) | - | 27,547 | - | - | (27,547) | - | - | - | - | - |
| Distribution of subsidiaries' dividends | - | - | - | - | - | - | - | - | - | - | (2,220) | (2,220) |
| Net income for the year | - | - | - | - | - | - | - | - | 2,051,412 | 2,051,412 | 6,683 | 2,058,095 |
| **Closing balances for the year** | **1,465,661** | **34,339** | **834** | **27,547** | **717,115** | **1,448,649** | **412,070** | **3,783,293** | **1,909,292** | **9,798,800** | **292,384** | **10,091,184** |

Notes and schedules are an integral part of these consolidated financial statements.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

………………………..(Partner)
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BANCO Hipotecario

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the fiscal year ended 12/31/2017

In thousands of Argentine Pesos

| Changes | Capital Stock | | Non-capitalized Contributions | | Equity adjustments | Profit reserves | | | Retained earnings | Total Shareholders' Equity controlling interests 12/31/2017 | Total Shareholders' Equity non-controlling interests 12/31/2017 | Total as of 12/31/2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding | Treasury Stock | Share issuance premium | Stock-based payment | | Legal | Stock-based payments | Others | | | | |
| **Opening balances for the year** | **1,463,365** | **36,635** | **834** | **-** | **717,115** | **1,006,896** | **-** | **1,052,465** | **2,078,562** | **6,355,872** | **163,892** | **6,519,764** |
| Retroactive adjustments and restatements (1) | - | - | - | - | - | - | - | - | 43,956 | 43,956 | - | 43,956 |
| **Adjusted opening balances for the year** | **1,463,365** | **36,635** | **834** | **-** | **717,115** | **1,006,896** | **-** | **1,052,465** | **2,122,518** | **6,399,828** | **163,892** | **6,563,720** |
| Allocation of retained earnings-Approved by Shareholders' Meeting dated 04/04/2017 | | | | | | | | | | | | |
| -Legal reserve | - | - | - | - | - | 123,066 | - | - | (123,066) | - | - | - |
| Other reserves | - | - | - | - | - | - | - | 1,655,856 | (1,655,856) | - | - | - |
| Changes in non-controlling interest | - | - | - | - | - | - | - | - | (22,770) | (22,770) | 127,990 | 105,220 |
| Distribution of subsidiaries' dividends | - | - | - | - | - | - | - | - | - | - | (1,350) | (1,350) |
| Creation of Remuneration Plan | - | - | - | - | - | - | 439,617 | - | - | 439,617 | - | 439,617 |
| Net income for the year | - | - | - | - | - | - | - | - | 1,130,490 | 1,130,490 | (2,611) | 1,127,879 |
| **Closing balances for the year** | **1,463,365** | **36,635** | **834** | **-** | **717,115** | **1,129,962** | **439,617** | **2,708,321** | **1,451,316** | **7,947,165** | **287,921** | **8,235,086** |

(1) See Note 2.14.

Notes and schedules are an integral part of these consolidated financial statements.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………(Partner)
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BANCO Hipotecario

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the fiscal year ended 12/31/2018, in comparative format with the previous fiscal year

In thousands of Argentine Pesos

| ITEM | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Net income for the period before income tax** | **2,058,095** | **1,646,128** |
| **Adjustments to obtain cash flows from operating activities** | | |
| Depreciation and impairment of assets | | |
| Loan loss provisions, net of recovered loans | 444,200 | 144,968 |
| Provision for loan losses, net of reversed provisions | 1,615,156 | 976,375 |
| Income (loss) from investment in subsidiaries | (34,039) | 199,236 |
| Net interest income | (2,164,244) | (3,998,252) |
| Changes in fair value of investments in financial instruments | (5,903,793) | (2,073,736) |
| Profit from sale of bank premises and equipment/Revaluation of investment property | (191,867) | (81,245) |
| Other adjustments | (2,220) | 543,485 |
| **Net increase /(decrease) from operating assets** | | |
| Debt securities at fair value through profit or loss | | |
| Derivative instruments | 1,483,746 | (9,166,613) |
| Repo Transactions | (23,261) | 123,500 |
| Loans and other financing arrangements | (474,310) | 52,919 |
| Non-financial public sector | 60,427 | 63,459 |
| Financial sector | 259,801 | 659,551 |
| Non-financial private sector and foreign residents | 8,164,768 | 633,281 |
| Other debt securities | (565,446) | 325,241 |
| Financial assets pledged as collateral | 180,728 | 761,897 |
| Investments in equity instruments | 26,141 | (113,330) |
| Other assets | (2,367,139) | 21,898 |
| **Net increase / (decrease) from operating liabilities** | | |
| Deposits | | |
| Non-financial public sector | 1,225,716 | 675,420 |
| Financial sector | (282) | 717 |
| Non-financial private sector and foreign residents | 2,520,417 | 40,353 |
| Liabilities at fair value through profit or loss | 751,511 | - |
| Derivative instruments | 70,525 | (117,978) |
| Repo transactions | (1,054,660) | (766,194) |
| Other liabilities | 5,037,676 | 905,827 |
| Collections/Payments due to income tax | (730,434) | (614,898) |
| **Total from operating activities** | **10,387,212** | **(9,157,991)** |

| | | |
|---|---|---|
| **Lorena C. Morchón**<br>General Accounting Manager | **Manuel J.L. Herrera Grazioli**<br>General Manager | See our report dated<br>March 6, 2019<br>PRICE WATERHOUSE & Co. S.R.L. |
| **Saúl Zang**<br>Second Vice-Chairman acting as Chairman | **Ricardo Flammini**<br>For the Supervisory Committee | ………………………..(Partner)<br>C.P.C.E.C.A.B.A. Volume 1 Page 17 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the fiscal year ended 12/31/2018, in comparative format with the previous fiscal year

In thousands of Argentine Pesos

| ITEM | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Cash flows from investing activities** | | |
| **Payments** | | |
| Purchase of bank premises and equipment, intangible assets and other assets | (2,028,546) | (1,254,908) |
| **Collections** | | |
| Sale of bank premises and equipment, intangible assets and other assets | 591 | 83,976 |
| **Other collections related to investing activities** | - | 7,650 |
| **Total from investing activities** | **(2,027,955)** | **(1,163,282)** |
| **Cash flows from financing activities** | | |
| **Payments** | | |
| Payment of dividends | (199,777) | - |
| Unsubordinated negotiable obligations | (7,074,266) | (4,248,189) |
| Loans from domestic financial institutions | (24,916,949) | (22,174,833) |
| Other payments related to financing activities | (5,452,737) | (3,857,533) |
| **Collections** | | |
| Unsubordinated negotiable obligations | 1,939,192 | 11,108,566 |
| Loans to domestic financial institutions | 25,569,619 | 21,865,778 |
| Subordinated negotiable obligations | - | 100,000 |
| Other collections related to financing activities | 5,614,491 | 3,898,999 |
| **Total from financing activities** | **(4,520,427)** | **6,692,788** |
| | | |
| **Effect of exchange rate variations** | **1,042,407** | **233,405** |

| TOTAL VARIATION OF CASH FLOWS | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Net Increase/(Decrease) in cash and cash equivalents | 4,881,237 | (3,395,080) |
| Cash and cash equivalents at the beginning of the year | 3,951,549 | 7,346,629 |
| Cash and cash equivalents at the end of the year | 8,832,786 | 3,951,549 |

Notes and schedules are an integral part of these consolidated financial statements.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

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For the Supervisory Committee

……………………….(Partner)
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## 1. BANCO HIPOTECARIO SOCIEDAD ANÓNIMA

Pursuant to Law 24,855 enacted on July 2, 1997 and promulgated by the National Executive Branch through Decree 677 dated July 22, 1997, and implementing Decree 924/97, Banco Hipotecario Nacional was declared "subject to privatization" under the terms of Law 23,696 and the National Executive Branch was ordered to proceed to its transformation into a corporation ("*sociedad anónima*"). The new entity arising from this transformation will do business under the denomination of "Banco Hipotecario Sociedad Anónima", and as a commercial bank in accordance with Law 21,526 and supplementary rules, as amended, with the scope envisaged by the regulations, and with the rights and obligations of its predecessor, as well as with the franchise to provide insurance over transactions originated until July 23, 2007.

Banco Hipotecario Sociedad Anónima has a corporate capital of Ps. 1,500,000 thousand, fully subscribed and paid-in, represented by 1,500,000,000 common book-entry Class A, B, C and D shares, with a face value of Ps. 1 each and one vote per share (according to the decision made by the General Ordinary and Extraordinary Shareholder's Meeting held on July 21, 2006), except for the special multiple vote right for Class D shares envisaged by the Bank's by-laws.

Due to the expiration on January 29, 2009 of the Total Return Swap that had been executed and delivered on January 29, 2004, Deutsche Bank AG transferred to the Bank 71,100,000 common Class "D" shares of Banco Hipotecario Sociedad Anónima with a face value of $ 1 each, which were available according to the terms and conditions prescribed in section 221 of the Argentine Companies Law.

Through Minutes No. 268 dated January 12, 2010, the Board of Directors resolved: 1) to propose to the Shareholders' Meeting that treasury Class D shares be given as payment to the holders of Stock Appreciation Rights (StARS) to the extent of their accrued amounts, considering the shares' value at that moment, and 2) to discuss possible alternatives for the Shareholders' Meeting to resolve upon the allocation of the remaining shares.

On June 16, 2010, the Board of Directors resolved to launch a preemptive offer to sell a portion of the Bank's treasury shares, for a total of 36.0 million class D shares. The remaining shares would be delivered in payment to the holders of StAR coupons arising from the debt restructuring, which fell due on August 3, 2010. On July 26, 2010, within the framework of the referred offer, the Bank sold approximately 26.9 million of the shares mentioned above.

On August 3, 2010, the proceeds of the offer and the balance of the shares referred in the preceding paragraph were made available to the holders of the StAR coupons. With the above-mentioned offering, 999,312 Class D shares were sold in excess of those required to pay off the obligation previously mentioned. In connection with such excess sale, Ps. 554 thousand were recorded as Unappropriated retained earnings to reflect the addition of the shares to the entity's equity, which took place on January 29, 2009 as detailed in this note, and further Ps. 834 thousand were booked as Additional paid-in capital for the difference between the value as added to the entity's equity and the sales value.

The General Ordinary Shareholders' Meeting held on April 24, 2013 resolved to allocate 35,100,000 Class D treasury shares to a compensation program for the personnel under the terms of Section 67 of Law 26,831.

On April 24, 2014, the General Ordinary Shareholders' Meeting acknowledged the incentive or compensation program described in the preceding paragraph and its extension to the personnel employed by the subsidiaries BACS Banco de Crédito y Securitización S.A., BH Valores S.A., BHN Sociedad de Inversión S.A., BHN Vida S.A. and BHN Seguros Generales S.A.

As of December 31, 2016, the Bank held 36,634,733 treasury shares, out of which 1,534,733 correspond to third-party holders of StARs who have not filed the documentation required for their collection. The Shareholders' Meeting held on April 4, 2017 unanimously resolved to include 1,534,733 common shares in the compensation program for the personnel that had been approved at the Shareholders' Meetings held on April 24, 2013 and April 24, 2014.

On November 30, 2017, the Board of Directors of the CNV considered that it would be advisable to approve Banco Hipotecario S.A.'s Rules of the Compensation Program for the personnel of the entity and its subsidiaries, BACS Banco de Crédito y Securitización S.A. – BHN Sociedad de Inversión S.A., BHN Vida S.A., BHN Seguros Generales S.A. and BH Valores S.A.

Under Decree 2127/2012 and Resolution 264/2013 issued by the Ministry of Economy and Public Finance, the *Programa de Propiedad Participada* (Employee Stock Ownership Plan) was implemented. Under this plan, in a first stage, out of a total of 75,000,000, 17,990,721 Class B shares were converted into Class A shares, to be allocated among the employees that have withdrawn from the Bank in accordance with the implementation guidelines. Upon delivery to the former employees, the 17,990,721 shares will become Class D shares. The shares allocated to the Bank's current employees are designated as Class B shares, representing the *Programa de Propiedad Participada*.

The following table shows the composition of the capital stock as of December 31, 2018, detailing the classes of shares and their face value.

| Class | Shares | Fair value | Capital stock |
|---|---|---|---|
| A | 664,489,424 | 1 | 664,489,424 |
| B | 57,009,279 | 1 | 57,009,279 |
| C | 75,000,000 | 1 | 75,000,000 |
| D | 703,501,297 | 1 | 703,501,297 |
| | 1,500,000,000 | | 1,500,000,000 |

## 2. ACCOUNTING STANDARDS AND BASIS FOR PREPARATION

Banco Hipotecario S.A. (hereinafter, "the Bank") is a financial institution subject to the Financial Institutions Law No. 21,526 and, as such, is also required to comply with the regulations laid down by the Argentine Central Bank ("BCRA") in its capacity as Regulatory Authority of Financial Institutions. The Bank is also required to comply with the regulations handed down by the Argentine Securities Commission, in accordance with Law No. 26,831. The Bank and its subsidiaries are jointly referred to as "the Group."

The main activities the Group is engaged in are described in Note 28.

These consolidated financial statements were approved by the Board of Directors on March 6, 2019.

### 2.1. Adoption of International Financial Reporting Standards (IFRS)

The Argentine Central Bank, through Communication "A" 5541, as amended, set forth a convergence plan towards the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), to be complied with by entities under the Argentine Central Bank's oversight, except for Item 5.5. (Impairment) of IFRS 9 "Financial Instruments," effective for fiscal years commenced on January 1, 2018. Entities are also required to prepare their opening financial statements since January 1, 2017, which will serve as comparative basis to the financial statements commencing on January 1, 2018, with the interim financial statements as of March 31, 2018 being the first interim financial statements in being prepared under these standards, except for the application of Item 5.5. (Impairment) of IFRS 9 "Financial Instruments" and IAS 29 "Financial reporting in hyperinflationary economies". .

**Impairment of financial assets**

By means of Communication "A" 6430, the BCRA established that Financial Institutions shall apply the financial assets impairment provisions in Item 5.5 of IFRS 9 for fiscal years beginning on or after January 1, 2020.

For such purposes, IFRS 9 provides for a model of expected credit losses whereby financial assets are classified into three stages of impairment, based on credit quality changes after initial recognition, indicating how an entity measures impairment losses and applies the effective interest method.

As of the date of these consolidated financial statements, the Bank is in the process of quantifying the effect the application of that impairment model would have.

Pursuant to Communication "A" 6114 issued by the BCRA, the Entity has applied the provisions in Note 2.11 to recognize credit losses in these financial statements.

On February 22, 2019, the BCRA published Communication "A" 6651 setting forth that Financial Institutions shall apply IAS 29 for fiscal years beginning on or after January 1, 2020.

Comparative figures and figures as of the transition date (January 1, 2017) were modified to reflect the adjustments to the previous accounting framework.

Note 3 presents a reconciliation of the figures disclosed in the balance sheet, statement of income, statement of other comprehensive income and statement of cash flows comprising the financial statements issued under the previous accounting framework to the figures disclosed according to the accounting framework established by the Argentine Central Bank in these consolidated financial statements, as of the transition date (January 1, 2017) and as of the adoption date (December 31, 2017).

These consolidated financial statements should be read together with the Bank's annual financial statements as of December 31, 2017 prepared in accordance with the preceding accounting framework.

The Group's management has concluded that these consolidated financial statements fairly present its financial position, financial performance and cash flows.

### 2.2. Basis for Preparation

These consolidated financial statements were prepared in accordance with the accounting framework laid down by the BCRA as disclosed in Note 2.1.

In preparing these consolidated financial statements, the Group is required to make estimates and assessments affecting the reported amounts of assets and liabilities, and contingent assets and liabilities disclosed as of the date of these consolidated financial statements, as well as the reported amounts of income and expenses.

The Group makes estimates, for instance, to calculate the allowance for loan losses, the useful life of bank's premises & equipment, depreciation and amortization, the recoverable value of assets, the income tax expense, some labor-related costs, and the provisions for contingencies and lawsuits. Future actual results may differ from the estimates and assessments made as of the date these consolidated financial statements were prepared.

The areas involving a higher degree of judgment or complexity or the areas in which the assumptions and estimates are material for these consolidated financial statements are described in Note 4.

The consolidated financial statements are denominated in pesos, which is the Group's functional currency.

(a) **Going Concern**

As of the date of these consolidated financial statements, there are no uncertainties as to developments or circumstances that may call into question the likelihood that the Group will continue operating normally as a going concern.

(b) **Restatement of inflation of financial statements**

IAS 29 "Financial Reporting in Hyperinflationary Economies" requires that the financial statements of an entity whose functional currency is that of a highly inflationary economy be stated in terms of the current measurement unit as of the reporting year-end, regardless of whether such financial statements are based on the historical or the current cost method. To such end, in general terms, entities are required to account for inflation occurring since the acquisition date or the revaluation date, as applicable, in non-monetary items. Such requirements are also applicable to the comparative information disclosed in the financial statements.

The standard sets out a number of factors that should be considered to conclude that an economy is highly inflationary under IAS 29, including a cumulative inflation rate for three consecutive years close to, or in excess of, 100%. Therefore, pursuant to IAS 29, the Argentine economy should qualify as highly inflationary as from July 1, 2018.

In summary, according to the restatement mechanism set forth in IAS 29, monetary assets and liabilities will not be restated for they are already stated in the measuring unit current at the end of the reporting period. Assets and liabilities subject to adjustments on the basis of specific arrangements will be adjusted according to such arrangements. Non-monetary items measured at their current values at the end of the reporting period, such as net realizable value or others, will not be restated. All other non-monetary assets and liabilities will be restated by applying a general price index. Gains or losses from an entity's net monetary position will be charged to the reporting period's net income or loss in a separate item.

On February 22, 2019, the BCRA published Communication A 6651 setting forth that Financial Institutions shall apply IAS 29 for fiscal years beginning on or after January 1, 2020.

The Group is working on estimating the restatement.

Based on the foregoing, the Group's shareholders' equity and results would significantly differ from currently reported balances if they were restated in constant currency as of the measurement date, pursuant to the restatement mechanism provided for under IAS 29.

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(c) **Changes in accounting standards/new accounting standards**

Regarding new IFRS approved, or current IFRS that are modified or repealed, once said changes are adopted through Circulars of Adoption issued by the Argentine Federation of Professional Councils in Economic Sciences ("FACPCE"), the BCRA shall decide on approval thereof in relation to financial institutions. In general, early adoption of IFRS shall not be allowed, unless specifically admitted upon adoption.

Below is a detail of the new standards, amendments and interpretations that have been released but have not yet come in force for fiscal years beginning on January 1, 2018 and thereafter, and which have not been early adopted:

**IFRS 16 "Leases":** In January 2016, the IASB issued IFRS 16 "Leases" which sets out a new accounting model for leases. Under IFRS 16, a contract is or contains a lease if the contract confers the lessee a right to control the use of an identified asset for a period of time, for consideration. IFRS 16 requires that the lessee recognize the liability arising from the lease reflecting the lease future payments and a right of use of the assets for substantially all leases, other than certain short-term leases and leases of low-value assets. Lessor accounting is maintained as provided for in IAS 17. However, the new accounting model for lessees is expected to have an impact on negotiations between lessors and lessees. Through Communication "A" 6560, the BCRA introduced changes to the accounts plan and reporting regimes as a result of the effectiveness of IFRS as from January 1, 2019. The Group is assessing the impact the adoption of such standard will have on its financial statements.

**IFRS 17 "Insurance Contracts":** On May 18, 2017, the IASB issued IFRS 17 "Insurance Contracts," establishing a comprehensive accounting framework based on measurement and disclosure principles for insurance contracts. The new standard supersedes IFRS 4 "Insurance Contracts," and requires that insurance contracts be measured using current fulfillment cash flows and that revenues be recognized as the insurance service is delivered during the term of the coverage. Entities are required to apply IFRS 17 for fiscal years commencing on or after November 1, 2021. The Group is assessing the potential impact this standard will have on its financial statements.

**IFRIC 23 "Uncertainty over Income Tax Treatment":** This interpretation sheds light on how the recognition and measurement requirements of IAS 12 "Income Tax" should be applied when there is uncertainty over the income tax treatment. IFRIC 23 was published in June 2017 and entities will be required to apply it for fiscal years commencing on or after January 1, 2019.

**Amendment to IFRS 9 "Financial Instruments":** This amendment allows entities to measure certain instruments allowing early payment with negative compensation at amortized cost. For such assets, which include certain loans and bonds, to be measured at amortized cost, the negative compensation shall be "reasonable compensation for early termination" and the asset shall be held in a business model as held for collection. This regulation applies to fiscal years beginning on or after January 1, 2019. The Group is working on the quantification of this effect.

**Changes in IAS 28 "Investment in associates and joint ventures":** the changes introduced clarify long-term accounting of associates and joint ventures for which the equity method shall not apply. Entities shall account for such investments pursuant to IFRS 9 "Financial Instruments" before applying the impairment requirements of IAS 28 "Investment in associates and joint ventures". This regulation applies to fiscal years beginning on or after January 1, 2019. The Group estimates that application of this standard will not have a significant impact.

To date, there are no other IFRS or IFRIC interpretations which have not yet come into force and which are expected to have a material impact on the Group.

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### 2.3. Consolidation

Subsidiaries are entities (or investees), including structured entities, over which the Group has control because (i) it has the power to direct the investee's relevant activities substantially affecting its returns, (ii) it has exposure to, or rights in, variable returns by reason of its equity interest in the investee, and (iii) it has the ability to use its power over the investee to affect the amount of the investor's returns. The existence and effect of substantive rights, including potential substantive voting rights, is taken into account when assessing whether the Group has influence on another entity. In order for a right to be substantive, it must be exercisable by its holder when decisions about the direction of the entity's relevant activities need to be made. The Group may have control over an entity, even if it is entitled to less than a majority of voting rights.

In addition, other investors' protective rights, such as those related to substantive changes to the investee's activities or only applicable under exceptional circumstances, do not prevent the Group from having power over an investee. Subsidiaries are consolidated since the date control is transferred to the Group, and are removed from consolidation since the date on which control ceases.

The following table shows the Group's subsidiaries subject to consolidation:

| Company | Principal Line of Business | Closing Date | PERCENTAGE INTEREST | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 12/31/2018 | | 12/31/2017 | | 01/01/2017 | |
| | | | Direct | Direct and Indirect | Direct | Direct and Indirect | Direct | Direct and Indirect |
| BACS Banco de Crédito y Securitización S.A. (a) | Financial Institution. On March 3, 2017, BACS was authorized by the Board of Directors of the BCRA to do business as a first-tier commercial bank. | Dec-31 | 62.28% | 62.28% | 62.28% | 62.28% | 87.50% | 87.50% |
| BHN Sociedad de Inversión S.A. (b) | Investment in companies engaged in the insurance or any other business. | Dec-31 | 99.99% | 100.00% | 99.99% | 100.00% | 99.99% | 100.00% |
| Tarshop S.A. (b) | Issuance and marketing of credit cards and consumer loans | Dec-31 | 80.00% | 80.00% | 80.00% | 80.00% | 80.00% | 80.00% |
| BH Valores S.A. | Settlement and Clearing Agent in its own | Dec-31 | 95.00% | 100.00% | 95.00% | 100.00% | 95.00% | 100.00% |
| Financial Trusts CHA Series VI to VIII | Trust Fund | Dec-31 | - | - | - | - | 100.00% | 100.00% |
| Financial Trusts CHA Series IX to XIV | Trust Fund | Dec-31 | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

All companies are based in Argentina and their local and functional currency is the Argentine Peso.

(a) As of January 1, 2017, the Bank had an 87.50% equity interest in BACS, equivalent to Ps. 62,500 thousand. As of December 31, 2017 and 2018, the Bank had a 62.28% equity interest in BACS, equivalent to Ps. 87,813 thousand, following a resolution passed at a meeting of BACS' board of directors held on February 21, 2017 in respect of the issuance of 25,313,251 book-entry common shares with a face value of Ps. 1 and one voting right each in favor of IRSA Inversiones y Representaciones S.A. See Note 15.

BACS consolidates its financial statements with: BACS Administradora de Activos S.A. S.G.F.C.I., Fideicomiso Hipotecario BACS III, and Fideicomiso Hipotecario BACS Funding I. Furthermore, it owns 0.01% of BHN Sociedad de Inversión Sociedad Anónima.

(b) BHN Sociedad de Inversión Sociedad Anónima owns a 99.99% interest in BHN Vida S.A. and BHN Seguros Generales S.A., and a 5% interest in BH Valores SA.

(c) In order for Tarshop S.A. to have sufficient resources for its operational activities, the boards of directors of its shareholders Banco Hipotecario S.A. and IRSA Propiedades Comerciales S.A. have made several irrevocable capital contributions. The Bank contributed Ps. 42,000 thousand, Ps. 42,000 thousand, and Ps. 200,000 thousand in September 2015, November 2015, and June 2016, respectively.

According to the rules and regulations established by the BCRA, financial institutions are required to rely on the BCRA's previous authorization when seeking to capitalize irrevocable contributions. To such end, Tarshop applied with the CNV for a stay of the term set forth in Article 3, Chapter III, Title III of the Technical Rules, Version 2013, as amended. Then, once the observations raised by the BCRA had been duly addressed, Tarshop applied with the CNV for the elimination of the aforementioned stay of the statutory terms, which petition was granted on May 3, 2017.

On July 27, 2017, the General Ordinary Shareholders' Meeting of Tarshop S.A. approved the total capitalization of the balance in the Irrevocable Contributions account for Ps. 355,000 thousand, without additional paid-in capital, maintaining the proportion of the stock capital, and accordingly, it resolved to increase the stock capital from Ps. 243,796 thousand to Ps. 598,796 thousand. This transaction was registered before the Superintendency of Corporations on August 14, 2017.

On November 15, 2018, the Bank's Board of Directors approved the acquisition of 20% of Tarshop S.A.'s shares from IRSA Propiedades Comerciales S.A., subject to compliance with the applicable formal requirements.

Afterwards, on December 12, 2018, the Bank's Board of Directors approved the final terms and conditions of the purchase of 119,759,288 common book-entry shares with a nominal value of $1 each, and each entitling to one vote, representing 20% of Tarshop's corporate capital, for a price of US Dollars 100 thousand plus a variable compensation, payable if the Bank sells all or part of Tarshop to a third party within 2 years as from the date of closing of the agreement. Likewise, the Board of Directors approved an irrevocable capital contribution of up to Ps. 600,000 thousand in Tarshop, for the purposes of starting to work on efficiency improvements and for the purpose of providing it with sufficient resources to comply with its obligations. Said contribution shall be made by the Bank within 12 months after signing the documents formalizing the acquisition. Since the acquisition did not take place, on December 27, 2018 the Bank's Board of Directors has decided to make the irrevocable capital contribution agreed, for Ps. 480,000 thousand, that is to say, in proportion to its 80% shareholding in Tarshop.

On February 14, 2019, the acquisition of 20% of Tarshop was completed, and as of that date the Bank holds 100% of the company's share capital.

For purposes of the consolidation, the Group relied on the subsidiaries' financial statements for the fiscal year ended December 31, 2018, which encompass the same period of time as the Bank's financial statements. Said financial statements have been adjusted in order for them to reflect similar criteria as those applied by the Bank in preparing its consolidated financial statements. These adjustments and reconciliations were subject to management's monitoring and confirmation mechanisms encompassing all significant items with differing treatment in the applied standards, mainly including deferred tax, allowances for loan losses, actuarial reserves and restatement of accounts in constant currency.

Accounts receivable and payable and gains (losses) from inter-company transactions were eliminated from the consolidated financial statements.

A non-controlling interest is a subsidiary's share of net income (loss) and shareholders' equity attributable to interests which are not owned by the Bank, either directly or indirectly. The non-controlling interest is disclosed as a separate item of the Group's shareholders' equity.

**2.4. Transactions with the non-controlling interest**

The Group considers transactions with the non-controlling interest as if they were transactions with the Group's shareholders. When acquiring a non-controlling interest, the difference between the price paid and the respective interest in the carrying amount of the subsidiary's net assets acquired is recognized in shareholders' equity. The gains and losses on the disposal of equity interests are also recognized in shareholders' equity, to the extent control is maintained.

**2.5. Segment reporting**

An operating segment is a component of an entity (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by Management to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which confidential financial information is available.

Operating segments are reported consistently with the internal reports submitted to:

(i) Key management personnel, the utmost authority in charge of making operating decisions and allocating resources and assessing the performance of the operating segments; and
(ii) The Board of Directors, responsible for making the Group's strategic decisions.

**2.6. Foreign currency translation**

**(a) Functional currency and reporting currency**

The figures disclosed in the consolidated financial statements for each of the Group's entities are stated in their functional currency, that is, the currency of the main economic environment in which they operate. These consolidated financial statements are stated in Argentine Pesos, which is the Group's functional and reporting currency.

**(b) Transactions and balances**

Transactions in foreign currency are translated to functional currency at the exchange rates prevailing on the transaction or valuation dates when items are measured at closing. Gains and losses in foreign currency on the settlement of these transactions and on the translation of monetary assets and liabilities to foreign currency at the exchange rates prevailing at closing are recognized in the statement of comprehensive income under "Gold and foreign currency quotation differences," except when deferred in equity as in the case of qualifying cash flow hedges, where applicable.

Balances are valued at the US Dollar reference exchange rate defined by the BCRA at the closing of the last business day of each month.

As of December 31, 2018, December 31, 2017 and January 1, 2017, balances in US Dollars were converted at the reference exchange rate set forth by the BCRA. Foreign currencies other than US Dollars have been converted to US Dollars at the rates reported by the BCRA.

**2.7. Cash and bank deposits**

The item Cash and bank deposits includes cash available, unrestricted deposits held in banks, and other highly-liquid short-term investments with original maturity below three months from the origination date. These assets are accounted for at amortized cost which approximates fair value.

### 2.8. Financial instruments

Initial recognition

The Group recognizes a financial asset or liability in its consolidated financial statements, as the case may be, when it becomes a party to the financial instrument contract. Purchases and sales of financial instruments with delivery of the assets within the term generally set forth by market regulations and conditions, are recognized on the transaction's trading date on which the Group commits to buy or sell the asset.

Upon initial recognition, the Group measures financial assets and liabilities at fair value, plus or less, in the case of instruments that are not recognized at fair value through profit or loss, the transaction costs directly attributable to the acquisition, such as fees and commissions.

Where the fair value differs from the acquisition cost at the time of initial recognition, the Group recognizes the difference as follows:

- When fair value is consistent with the financial asset or liability market value, or is based on a valuation method relying on market values only, the difference is recognized as profit or loss, as the case may be.

- In other cases, the difference is deferred, with recognition of the profit or loss over the time being determined case by case. The difference is amortized during the life of the instrument until such time as fair value can be measured on the basis of market values.

**Financial assets**

a - Debt instruments

The Group classifies as debt instruments such instruments that are considered financial liabilities for the issuer, including loans, government and corporate securities, bonds, and accounts receivable from customers under non-recourse arrangements.

Classification

As set out in IFRS 9, the Group classifies financial assets as subsequently measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss, on the basis of:

a) the Group's business model to manage financial assets; and

b) the characteristics of contractual cash flows of the financial asset.

Business model

The business model is the manner in which the Group manages a set of financial assets to achieve a specific business goal. It represents the manner in which the Group maintains instruments for cash generation.

The Group may follow several business models, whose objective is:

- Holding instruments until maturity;
- Holding instruments in portfolio to collect cash flows and, in turn, sell them if deemed convenient; or
- Holding instruments for trading.

The Group's business model does not depend on management's intended purposes for an individual instrument. Accordingly, this condition is not a classification approach of instruments on an individual basis. Instead, such classification is determined at a higher level of aggregation.

The Group only reclassifies an instrument if and when the business model for managing financial assets has changed.

Characteristics of cash flows

The Group assesses whether the return on cash flows from the aggregated instruments does not substantially differ from the contribution it would receive as principal and interest; otherwise, such instruments should be measured at fair value through profit or loss.

Based on the aforementioned, financial assets are classified into three categories:

i) Financial assets measured at amortized cost:

Financial assets are measured at amortized cost when:

(a) the financial asset is held within a business model whose objective is to maintain financial assets to collect contractual cash flows; and

(b) the contractual conditions of the financial asset give rise, on certain specified dates, to cash flows which are only principal and interest payments on the outstanding principal.

These financial instruments are initially recognized at fair value plus the incremental and directly attributable transaction costs, and are subsequently measured at amortized cost.

The amortized cost of a financial asset is equal to its acquisition cost, net of accumulated amortization plus accrued interest (calculated applying the effective rate method), net of impairment losses, if any.

ii) Financial assets at fair value through other comprehensive income:

Financial assets are measured at fair value through other comprehensive income when:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

(b) the contractual conditions of the financial asset give rise, on certain specified dates, to cash flows which are only principal and interest payments on the outstanding principal.

These financial instruments are initially recognized at fair value plus the incremental and directly attributable transaction costs, and are subsequently measured at fair value through other comprehensive income. The gains and losses arising from changes in fair value are included in other comprehensive income under a separate component of equity. Impairment losses or reversals, interest income, and exchange gains and losses are charged to income. Upon the sale or disposal of the instrument, the accumulated gains or losses previously recognized in other comprehensive income are reclassified from equity to the income statement.

iii) Financial assets at fair value through profit or loss:

Financial assets at fair value through profit or loss include:

- Instruments held for trading;
- Instruments specifically designated at fair value through profit or loss; and
- Instruments whose contractual terms do not represent cash flows but rather principal or interest payments only on outstanding principal.

These financial instruments are initially recognized at fair value and the gains or losses derived from them are charged to the statement of income as realized.

The Group classifies a financial instrument as held for trading if such instrument is acquired or incurred for the main purpose of selling or repurchasing it in the short term, or if it is part of a portfolio of financial instruments which are managed jointly and for which there is evidence of short-term profits, or if it is a derivative which does not qualify as a hedging instrument. Derivatives and trading securities are classified as held for trading and are measured at fair value.

The fair value of those instruments was calculated at the exchange rates applicable as of the closing of each fiscal year in active markets, if applicable. When there was no active market, valuation methods were used, such as market transactions carried out on an arm's length basis between interested duly informed parties, if available, as well as current fair value references of other substantially similar instrument, or the analysis of discounted cash flows. The estimate of fair values is explained in further detail in the section “significant accounting criteria and estimates”.

Financial assets
are only measured at fair value through profit or loss when, in doing so, the Group eliminates or substantially reduces a measurement or recognition inconsistency which would otherwise be revealed in valuation.

b - Equity instruments

Equity instruments are those considered as such by the issuer; in other words, instruments which do not entail a contractual payment obligation and which evidence a residual interest in the issuer's assets after deducting all of its liabilities.

Such instruments are measured at fair value through profit or loss, except where management has availed, at the time of their initial recognition, of the irrevocable option to measure them at fair value through other comprehensive income. This method may only be applied when instruments are not held for trading and their respective gains or losses will be accounted for in Other Comprehensive Income (OCI), with no reclassification being allowed, even if already realized. Dividends receivable from such instrument will be charged to income only at the time the Group becomes entitled to receive payment.

Derecognition of financial assets

The Group derecognizes a financial asset only if any of the following conditions is met:

1. Upon termination of the Group’s interests in the cash flows generated by the financial asset; or

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2. Upon the transfer of the financial asset pursuant to the requirements in Section 3.2.4 of IFRS 9.

The Group derecognizes financial assets that had been transferred only if the following conditions are met:
1. When the Group has transferred its contractual rights to collect future cash flows;
2. When the Group retains the contractual rights to collect cash flows, but assumes a repurchase obligation upon satisfaction of the following three requirements:
   a. The Group is not required to pay any amount without receiving cash flows from the transfer of the asset; and
   b. The Group is not allowed to sell the financial asset; and
   c. The Group is required to submit the cash flows it has committed to.

**Financial liabilities**

Classification

The Group classifies its financial liabilities at amortized cost using the effective rate method, except for:

- Financial liabilities measured at fair value through profit or loss;
- Liabilities resulting from the transfer of financial assets; and
- Loan commitments at lower than market rates.

Financial liabilities measured at fair value through profit or loss: The Group may, upon initial recognition, avail of the irrevocable option to designate a liability at fair value through profit or loss, if and only if exercising such option results in improved financial reporting because:

- the Group eliminates or substantially reduces measurement or recognition inconsistencies which would otherwise be revealed in valuation;
- if financial assets and liabilities are managed and performance is assessed on a fair value basis, according to a documented investment or risk management strategy; or
- if a host contract contains one or more embedded derivatives.

Derecognition of financial liabilities

The Group derecognizes financial liabilities upon settlement; that is, when the financial liability has been canceled or paid off, or the contract has expired.

**2.9. Derivative instruments**
Derivative instruments are carried at fair value.

All derivative instruments are accounted for as assets when fair value is positive and as liabilities when fair value is negative, relative to the agreed-upon price. Changes in the fair value of derivative instruments are charged to income for the year.

The Group does not use hedge accounting.

**2.10. Repo transactions**
Repos
According to the derecognition criteria set out in IFRS 9, repos qualify as secured financing arrangements since the risk has not been transferred to the counterparty.

Financing arrangements granted in the form of repos are booked under “Repo Transactions”, and are classified by counterparty into financial borrowers, BCRA and non-financial borrowers, considering the asset received as collateral. As of the end of each month, accrued interest receivable is charged to "Repo Transactions" with its related contra-account in "Interest Income."

The underlying assets received in exchange for repos are booked under Off-Balance Sheet Accounts. These accounts reflect, at each month-end, the notional amount of current transactions measured at fair value and translated into its equivalent in Argentine Pesos, where applicable. The assets received which have been sold by the entity are not deducted, but rather derecognized at the end of the repo transaction, with an in-kind liability being accounted for to reflect the obligation of delivering the security sold.

Reverse Repos

Financing arrangements received in the form of reverse repos are booked under "Repo Transactions", and are classified by counterparty into financial creditors, BCRA and non-financial creditors, considering the asset delivered as collateral.

In these transactions, when the recipient of the underlying asset becomes entitled to sell it or pledge it as collateral, the asset involved is reclassified to "Financial assets pledged as collateral". At the end of each month, these assets are measured according to the category in which they were classified before the repo transaction, with the resulting gains or losses being recognized in the applicable accounts, according to the type of asset involved.

As of the end of each month, accrued interest payable is charged to "Repo Transactions" with its related contra-account in "Interest Expense."

**2.11. Allowances for loan losses**

As concerns allowances for loan losses, the "Minimum allowances for loan losses" set out in Section VIII of the Liquidity and Solvency rules (LISOL) of the BCRA still remain in force and are detailed below:
Entities are required to apply the following guidelines on minimum allowances for loan losses in respect of total debts owing by their customers:

| Commercial Portfolio | Consumer or Consumer Comparable Portfolio | With Preferred Guarantees | Without Preferred Guarantees |
|---|---|---|---|
| Normal situation | Normal situation | 1% | 1% |
| Under observation | Low risk | 3% | 5% |
| Under negotiation or refinancing agreements | N/A | 6% | 12% |
| Troubled | Mid risk | 12% | 25% |
| High risk of Insolvency | High risk | 25% | 50% |
| Uncollectible | Uncollectible | 50% | 100% |
| Uncollectible for technical reasons | Uncollectible for technical reasons | 100% | 100% |

The aforementioned categories of borrowers are broken down as follows:

- Commercial portfolio: It encompasses all kinds of financing arrangements, other than:
  - Consumer and mortgage loans
  - Commercial loans for up to the equivalent of the reference value set out in Section 3.7 of the standard
- Consumer portfolio: It includes all loans excluded from the preceding item.

On the other hand, the status assigned to each borrower within the commercial and consumer comparable portfolio is determined, in first place, by reference to the borrower's repayment capacity and, in second place, on the basis of the liquidation of its assets, while the status assigned to borrowers within the consumer portfolio is assigned on the basis of days in arrears.

Among other specific provisions, the Group has availed of the option of discontinuing the accrual of interest on customers with over 90 days' arrears, in lieu of writing them off.

The Group sets up additional allowances to cover certain estimates related to the impact of the current economic situation on the recoverability of the loan portfolio which includes self-insurance of risks stemming from death and disability on the debit balance of loans covered by contracts made with insurance companies.

**2.12. Leases / Leasing**

Operating leases

The Group (lessor) recognizes lease payments as income on a straight-line basis. The Group may apply other revenue recognition method, if deemed more appropriate. In turn, the Group recognizes costs, such as amortization and expenses.

The initial recognition value includes direct costs incurred in the acquisition of the operating lease at the carrying amount of the underlying asset, with such costs being recognized as expenses during the term of the lease in the same manner as the recognition of revenues.

Depreciation of the lease underlying asset is consistent with that of the comparable asset group. In turn, the Group applies IAS 36 to account for identified losses.

Financial leases

Financial leases are measured at the current value of unaccrued amounts, calculated according to the conditions agreed-upon under the respective contracts, by reference to the interest rate implicit in the lease.

Initial measurement

The Group uses the interest rate implicit in the lease to measure the net investment. Such rate is established in such a manner that the initial direct costs are automatically included in the net investment in the lease.

Initial direct costs, other than those incurred by manufacturers or concessionaires, are included in the initial measurement of the net investment in the lease and reduce the amount of revenues recognized throughout the lease term. The interest rate implicit in the lease is defined in such a manner that initial indirect costs are automatically included in the net investment in the lease; there is no need to add them separately.

The difference between the gross amount receivable and the current value represents the financial income which is recognized throughout the lease term. Financial income associated to leases is charged to income for the year. Impairment losses are charged to income for the year.

The Group applies the criteria outlined in Note 2.11 to determine whether impairment losses exist, in which case, loans are carried at amortized cost.

**2.13. Bank premises & equipment**

The Group has availed of the option set out in IFRS 1 "First-time Adoption of IFRS" and has adopted the fair value as attributed cost for certain items of Bank premises & equipment, including its headquarters and its own branches, as of the transition date to the IFRS mentioned in Note 3.

These assets are measured at acquisition or construction cost, net of accumulated depreciation and/or impairment losses, if any. The cost includes expenses directly attributable to the acquisition or construction of these items.

Subsequent costs are included in the value of the asset and are recognized as a separate asset, as the case may be, if and only if future economic benefits are expected to flow to the Group and its cost can be measured reliably. The carrying amount of the asset being replaced is derecognized, and the new asset is depreciated over its remaining useful life at the time of the improvement.

Repair and maintenance expenses are recognized in the consolidated statement of income for the year in which such expenses were incurred.

Depreciation is calculated on a straight-line basis, using annual rates sufficient to extinguish the value of the assets at the end of their estimated useful life. If an asset is comprised by significant components with varying useful lives, such components will be recognized and depreciated as separate items. Land is not depreciated.

Below is a detail of the useful life of each of the items under Bank Premises and Equipment:

| | **Useful life** (in years) |
|---|---|
| - Real property | 50 |
| - Furniture and fixtures | 10 |
| - Machinery and equipment | 5 |
| - Vehicles | 5 |
| - Miscellaneous assets | 5 |

Bank premises & equipment residual values, useful lives and depreciation methods are reviewed and adjusted, as needed, as of each year-end or when indicators of impairment exist.

The carrying amount of bank premises & equipment is immediately reduced to its recoverable value when the carrying amount exceeds the estimated recoverable value.

Gains and losses from the disposal of items of bank premises & equipment are calculated by comparing the proceeds from the disposal to the carrying amount of the respective asset and are recognized in the consolidated statement of income.

**2.14. Investment property**

Investment property is made up of real estate (including land or buildings, or part of a building, or both) held by the Group to derive income, for capital appreciation purposes, or both, rather than for use in the production of goods and services or for administrative purposes.

They are accounted for at fair value, and changes in fair value are recognized in other operating income or expenses, as applicable. Investment properties are not depreciated. Fair value is based on appraisals carried out by renowned and experienced independent experts in the area and category of the investment properties.

On November 14, 2018, the Bank's Board of Directors approved the accounting policy applicable to the item “Investment property”, which adopts the fair value method as a measurement criterion after initial recognition of those assets. As set forth in IAS 8, the change in accounting policy for the item was retroactively applied with an adjustment of initial balances for the oldest prior period presented in the financial statements. That is to say that in these financial statements, balances were restated as from January 1, 2017 onwards, as if the new accounting policy had always applied.

Below is a detail of the amount of the adjustment for each affected item in the financial statements:

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Pesos) | | |
| Bank premises and equipment | - | (78,594) | (83,804) |
| Other non-financial assets | 282,921 | 171,574 | 151,429 |
| Deferred tax liabilities | (70,730) | (23,246) | (23,669) |
| **Total impact on shareholders' equity** | **212,191** | **69,734** | **43,956** |

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Pesos) | |
| Other operating income | 189,941 | 20,030 |
| Depreciation and impairment of assets | 1,781 | 5,325 |
| Income tax | (47,484) | 423 |
| **Total impact on income for the year** | **144,238** | **25,778** |

The amount of earnings per share, both basic and diluted, would have decreased by 0.098 and 0.018 for fiscal years ended December 31, 2018 and 2017, respectively, if the previous accounting policy had been applied.

**2.15. Intangible assets**

**(a) Licenses**

Licenses acquired individually are initially measured at cost, while licenses acquired through business combinations are measured at their estimated fair value on the acquisition date.

As of the date of these consolidated financial statements, intangible assets with definite useful life are disclosed net of accumulated amortization and/or accumulated impairment losses, if any. These assets are tested for impairment on an annual basis or when indicators of impairment exist.

Licenses acquired by the Group were classified as intangible assets with definite useful life and are amortized on a straight-line basis over the license term, which does not exceed 5 years.

Impairment losses are recognized when the carrying amount of an asset exceeds its recoverable value. The recoverable value of an asset is the higher of its recoverable value or its value in use. For purposes of the impairment test, assets are grouped at the lowest level for which identifiable cash flows are generated (cash-generating units or CGU). Impairment of non-financial assets, other than goodwill, is reviewed on an annual basis to check for potential reversals.

**(b) Software**

Costs associated with software maintenance are recognized as an expense when incurred. Development, acquisition and deployment costs, unique and identifiable and directly attributable to the design and testing of software controlled by the Group, are recognized as assets.

Development, acquisition and deployment costs initially recognized as expenses for a period are not subsequently recognized as cost of the intangible asset. Costs incurred in software development, acquisition and deployment recognized as intangible assets are amortized on a straight-line basis during the estimated useful life, within a term not to exceed five years.

**2.16. Impairment of non-financial assets**

Assets with indefinite useful life are not amortized, but are rather tested for impairment on an annual basis. Unlike the preceding assumption, amortizable assets are tested for impairment when events or circumstances occur indicating that their carrying amounts may not be recoverable or, at least, on an annual basis.

Impairment losses are recognized when the carrying amount of an asset exceeds its recoverable value. The recoverable value of an asset is the higher of the net proceeds that would be derived from its disposal or its value in use. For purposes of the impairment test, assets are grouped at the lowest level for which identifiable cash flows are generated (cash-generating units or CGU). The carrying amount of non-financial assets, other than goodwill, which have experienced impairment is reviewed at each reporting date to check for potential impairment reversals.

**2.17. Trust assets**

Assets held by the Group in its capacity as trustee are not reported in the consolidated balance sheet. Commissions and fees earned on trust activities are disclosed in the caption Fee and commission income.

**2.18. Offsetting**

Financial assets and liabilities are offset by reporting the net amount in the consolidated balance sheet only to the extent the entity currently has a legally enforceable right of set-off, and intends to settle on a net basis, or realize the asset and settle the liability simultaneously.

**2.19. Loans from the Argentine Central Bank and other financial institutions**

The amounts owing to other financial institutions are recorded at the time the bank at issue disburses the proceeds to the business group. The non-derivative financial liability is measured at amortized cost. Where the Group buys back its own debt, such debt is derecognized from its consolidated financial statements and the difference between the residual value of the financial liability and the amount paid will be recognized as financial income or expense, as the case may be.

**2.20. Provisions / Contingencies**

The group recognizes a provision when:

a- an entity has a present obligation (legal or constructive) as a result of a past event;
b- it is probable that an outflow of resources embodying future economic benefits will be required to settle the obligation; and
c- a reliable estimate can be made of the obligation amount.

The Group is deemed to have a constructive obligation where (a) the entity has assumed certain responsibilities as a consequence of past practices or public policies, and (b) as a result, the entity has created expectations that it will discharge those responsibilities.

The Group recognizes the following provisions:

For labor, civil and commercial lawsuits: These provisions are calculated on the basis of attorneys' reports about the status of the proceedings and the estimate about the potential losses the Group may sustain, as well as on the basis of past experience in proceedings of these kinds.

For miscellaneous risks: These provisions are set up to address contingencies that may trigger obligations for the Group. In estimating the provision amounts, the Group evaluates the likelihood of realization taking into consideration the opinion of its legal and professional advisors.

The Group will not account for positive contingencies, other than those arising from deferred taxes and those whose realization is virtually certain.

As of the date of these consolidated financial statements, the Group's management believes there are no elements leading to determine the existence of contingencies that might be materialized and have a negative impact on these consolidated financial statements other than those set forth in Note 18.

**2.21. Other non-financial liabilities**

Non-financial accounts payable are accrued when the counterparty has discharged its contractual obligations and are measured at amortized cost.

**2.22. Negotiable obligations issued**

Unsubordinated negotiable obligations

The negotiable obligations issued by the Group are measured at amortized cost. Where the Group buys back its own negotiable obligations, such negotiable obligations are derecognized from its consolidated financial statements and the difference between the residual value of the financial liability and the amount paid will be recognized in the statement of comprehensive income, as income from early debt repayment.

Subordinated negotiable obligations

A financial instrument may only be classified as an equity instrument if an only if the following two conditions are met:

a- The instrument does not encompass an obligation of:
  - Delivering cash or other financial asset to another entity; or
  - Exchanging financial assets or liabilities with another entity under potentially unfavorable conditions.

b- If the instrument may or will be settled against the issuer's own equity instrument, it will be either:
  - A non-derivative instrument which does not entail any contractual obligation for the issuer of delivering a variable number of equity instruments of its own; or
  - A derivative instrument to be exclusively settled by the issuer by exchanging a fixed amount of cash or other financial asset for a fixed number of equity instruments of its own. For these purposes, the Group’s own equity instruments will not include instruments which are contracts for the future receipt or delivery of the Group’s own equity instruments.

The value of the shares is measured on the basis of the current value of a non-convertible obligation. The value of the associated shares is allocated to the Residual Value of debt issued after deducting the financial liability value from the market price of the negotiable obligations. The obligation of making principal or interest payments to debtholders is measured at amortized cost, until such debt is actually converted into shares or otherwise paid off. The conversion of debt issued into shares is carried as a financial derivative featuring an option to convert debt balances booked in the Group's functional currency into a certain number of the Group’s equity instruments.

**2.23. Capital stock and capital adjustments**

Shareholders’ equity accounts are stated in a currency which does not reflect changes in the price index since February 2003, except for the caption "Capital stock", which is carried at face value. The restatement adjustment pursuant to the procedure set out in Note 2.2.(b) is included in “Equity adjustments”.

Common shares are classified in shareholders’ equity and accounted for at their fair value.

**2.24. Reserves**

According to the regulations set forth by the Argentine Central Bank, 20% of net income for the fiscal year, net of previous years’ adjustments, if any, is required to be appropriated to the legal reserve. However, for the distribution of profits, entities shall comply with the provisions set forth by the BCRA in the amended and restated version of the regulation on the distribution of profits of Financial Institutions as detailed in Note 32.7

"Restrictions on the distribution of profits".

Likewise, Communication "A" 6618 sets forth that a special reserve shall be set up with the balance of profits originated by first application of IFRS, which may only be released for capitalization or to absorb potential negative balances of unappropriated retained earnings.

**2.25. Distribution of dividends**

The distribution of dividends to the Group's shareholders and its subsidiaries is recognized as a liability in the consolidated financial statements for the fiscal year in which dividends are approved by the Group's Shareholders' Meeting, to the extent the Argentine Central Bank's consent is not required for such distribution.

**2.26. Revenue recognition**

Financial income and expense is recognized in respect of all debt instruments in accordance with the effective rate method, pursuant to which all gains and losses which are an integral part of the transaction effective rate are deferred.

Gains or losses included in the effective rate embrace disbursements or receipts relating to the creation or acquisition of a financial asset or liability, such as payments received for the analysis of the customer's financial position, negotiation of the instrument terms, preparation and processing of the documents required to consummate the transaction, and payments received for the extension of credit facilities expected to be used by the customer. The Group carries all its non-derivative financial liabilities at amortized cost, except those included in "Liabilities at fair value through profit or loss", which are measured at fair value.

Fees and commissions earned by the Group on the origination of syndicated loans are not part of the product effective rate, and are recognized in the Statement of Income at the time the service is delivered, to the extent the Group does not retain a portion of the same, or such effective rate is maintained under the same conditions as the other participants. Commissions and fees earned by the Group on negotiations in third parties' transactions are not part of the effective rate either, and are recognized at the time the transactions are executed.

The Group's income from services is recognized in the statement of income as performance obligations are fulfilled, thus deferring income from customer loyalty programs, which are accounted for at the fair value of the points and the redemption rate, until such time as points are redeemed by customers and may be charged to profit or loss for the year.

Rental income from investment property is recognized in the consolidated statement of comprehensive income, on a straight line basis during the term of the lease agreement.

**2.27. Capitalization of financial costs**

Financial costs directly attributable to the acquisition, construction or long-term production of an asset are part of the cost of such asset. Pursuant to IAS 23, financial costs include foreign exchange differences from foreign currency loans as long as they are deemed financial costs adjustments. The other financial costs are charged to profit or loss for the year in which they are accrued, based on the effective rate method.

The Group first capitalizes such financial costs which, being attributable to qualified assets, would not had been incurred if such qualified assets had not existed. Financial costs are capitalized at the time the following conditions are fulfilled:

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a- The Group incurs in expenses for the qualified asset;
b- The Group incurs in financial costs; and
c- The activities required for the asset to be suitable for use or sale, as applicable, are carried out.

To allocate financial costs to qualified assets, but not specifically financed, the procedure shall be as follows:

a- debts specifically allocated to financed assets and financial costs already allocated shall be excluded from the total of debts;
b- a monthly average rate of the financial costs for the debts in the preceding paragraph shall be calculated;
c- the monthly average amounts for the assets in production, construction, installation or completion, excluding those receiving financial costs for specific financing shall be assessed; and
d- the capitalization rate stated in paragraph b shall be applied to the accounting measurements of the assets referred to in paragraph c.

**2.28. Retirement benefits**

The Group has set up provisions for its employees' retirement plans awarded in previous years.

**2.29. Income tax and minimum notional income tax**

**Income tax**

The income tax expense for the year includes current and deferred tax. Income tax is recognized in the consolidated statement of income, except for items required to be recognized directly in other comprehensive income. In this case, the income tax liability related to such items is also recognized in such statement.

The current income tax expense is calculated on the basis of the tax laws enacted as of the balance sheet date in Argentina. The Group periodically assesses the position assumed in tax returns in connection with circumstances in which the tax laws are subject to interpretation.

Deferred income tax is determined, in its entirety, by applying the liability method on the temporary differences arising from the carrying amount of assets and liabilities and their tax base. Deferred tax is determined using tax rates (and laws) enacted as of the balance sheet date and that are expected to be applicable when the deferred tax assets are realized or the deferred tax liabilities are settled.

Deferred tax assets are recognized only to the extent future tax benefits are likely to arise against which the temporary differences might be offset.

The Group recognizes deferred tax liabilities for taxable temporary differences related to investments in subsidiaries and affiliates, except if the following two conditions are met:

(i) the Group controls when temporary differences will be reversed;
(ii) there is a probability that said temporary differences will not be reversed at any foreseeable time in the future.

The balances of deferred tax assets and liabilities are offset when a legal right exists to offset current tax assets against current tax liabilities and to the extent such balances are related to the same tax authority of the Group or its subsidiaries, where tax balances are intended to be, and may be, settled on a net basis.

**Minimum notional income tax**

The Group determines the minimum notional income tax at the effective rate of 1% on taxable assets at each fiscal year-end. For entities governed by the Financial Institutions Law, the Minimum Notional Income Tax Law sets forth that they should consider 20% of their taxable assets as taxable base, after deducting non-taxable assets. This tax is supplementary to income tax. The Group's tax liability is equal to the higher of both taxes. However, if the minimum notional income tax were to exceed income tax in a given fiscal year, such excess may be creditable against the income tax liability that could be generated in any of the following ten fiscal years.

The minimum notional income tax credit disclosed under the caption “Current Income Tax Assets” is the portion the Group expects to offset against the income tax in excess of minimum notional income tax to be generated in the following fiscal years.

**2.30. Earnings per share**

Basic earnings per share are calculated as income (loss) for the year attributable to the Group's ordinary shareholders, divided by average common shares outstanding during the current year.

Diluted earnings per share are calculated by adjusting both income (loss) for the year attributable to shareholders and average common shares outstanding for the effects of the potential conversion into equity instruments of all convertible securities held by the Group at year-end.

During the fiscal years ended December 31, 2018 and 2017, the Group did not maintain dilutive financial instruments; accordingly, basic earnings per share and diluted earnings per share are the same.

## 3. TRANSITION TO IFRS

### 3.1 Requirements for the transition to IFRS

Note 3.8 presents a reconciliation between the shareholders' equity, statement of income, and other comprehensive income amounts related to the consolidated financial statements issued according to the accounting framework prior to the transition date (January 1, 2017) and the adoption date (December 31, 2017) and the amounts presented according to IFRS in these consolidated financial statements, as well as the effects of adjustments to cash flows.

### 3.2 Optional exceptions under IFRS

Under IFRS 1, first-time adopters are allowed to consider certain one-off exemptions. The IASB has established such exemptions in order to streamline the first-time adoption of certain IFRS, removing the retroactive application requirement.

Below is a detail of the optional exemptions applicable to the Bank under IFRS 1:

1. **Cost allocated to bank premises & equipment and investment property:** The fair value of certain items of bank premises & equipment has been adopted as allocated cost as of the transition date to the IFRS.
2. **Business combinations:** The Group has opted for not applying IFRS 3 “Business Combinations” retrospectively for business combinations prior to the date of transition to IFRS.
3. **Assets and liabilities of subsidiaries that have already adopted the IFRS:** The Group has adopted the IFRS for the first time after its subsidiary Tarshop. Therefore, the carrying amounts of this subsidiary’s assets and liabilities have been measured in the Group’s consolidated financial statements for the same carrying amounts disclosed in the financial statements of that subsidiary (except for the application of Item 5.5. of IFRS 9).
4. **Investments in subsidiaries, entities under common control and associates:** The Group may, at its option, measure such investments at cost under IFRS 9; or under the equity method described in IAS 28.

The Group has not made use of other exemptions available in IFRS 1.

### 3.3 Mandatory exceptions under IFRS

Below are the mandatory exceptions applicable to the Group under IFRS 1:

1. Estimates: The Group's estimates under IFRS as of January 1, 2017 (the transition date to the IFRS) are consistent with the estimates as of the same date calculated pursuant to the Argentine Central Bank's accounting standards, considering the comments in Note 2.1 (without applying the impairment chapter under IFRS 9).
2. Derecognition of financial assets and liabilities: The Group has relied on the derecognition criteria for financial assets and liabilities under IFRS 9 on a prospective basis for transactions occurring subsequent to January 1, 2017.
3. Classification and measurement of financial assets: The Group has taken into consideration the facts and circumstances prevailing as of January 1, 2017 in assessing whether financial assets are eligible for classification as assets measured at amortized cost, at fair value through profit or loss, or at fair value through other comprehensive income.

The other mandatory exceptions under IFRS 1 have not been applied for they are not material to the Group.

**3.4 Required reconciliation**

As required by Communication "A" 5541, as supplemented, below is a detail of the main adjustments resulting from the transition to the IFRS, and of certain reconciliation in connection with such transition, as follows:

- Reconciliation of consolidated shareholders' equity determined under the Argentine Central Bank's rules to consolidated shareholders' equity determined under the IFRS, as of January 1, 2017 (transition date to IFRS) and as of December 31, 2017; and

- Reconciliation of consolidated net income determined under the Argentine Central Bank's rules for the fiscal year ended December 31, 2017 to total consolidated comprehensive income determined under IFRS as of such date.

- Reconciliation of consolidated shareholders' equity as of January 1, 2017

| | Ref. | Balances under Argentine Central Bank's rules | Reclassifications | Valuation adjustments | Balances under IFRS |
|---|---|---|---|---|---|
| | | (In thousands of pesos) | | | |
| Cash and bank deposits | | 7,346,629 | - | - | 7,346,629 |
| Debt securities at fair value through profit or loss | (a) | 1,831,593 | 1,803,773 | (2,192) | 3,633,174 |
| Derivative instruments | | 169,717 | - | - | 169,717 |
| Repo transactions | | 168,083 | - | - | 168,083 |
| Other financial assets | | 2,090,802 | - | - | 2,090,802 |
| Loans and other financing arrangements | (b) | 31,841,630 | - | (172,670) | 31,668,960 |
| Other debt securities | (a) | 2,525,050 | (1,804,386) | (19,706) | 700,958 |
| Financial assets pledged as collateral | | 2,949,739 | - | - | 2,949,739 |
| Current income tax assets | | 114,192 | - | - | 114,192 |
| Investments in equity instruments | | 100,286 | - | - | 100,286 |
| Investments in subsidiaries, associates and joint ventures | | - | 13,977 | - | 13,977 |
| Bank premises & equipment (*) | (c) | 445,881 | - | 1,073,221 | 1,519,102 |
| Intangible assets | (d) | 567,364 | (13,364) | (455,705) | 98,295 |
| Other non-financial assets (*) | (e) | 414,950 | - | (34,012) | 380,938 |
| **TOTAL ASSETS** | | **50,565,916** | **-** | **388,936** | **50,954,852** |
| Deposits | | 17,736,483 | - | - | 17,736,483 |
| Derivative instruments | | 187,108 | - | - | 187,108 |
| Repo transactions | | 1,752,267 | - | - | 1,752,267 |
| Other financial liabilities | | 4,653,565 | - | - | 4,653,565 |
| Loans from the Argentine Central Bank and other financial institutions | | 707,463 | - | - | 707,463 |
| Negotiable obligations issued | (f) | 16,646,726 | | (71,000) | 16,575,726 |
| Current income tax liabilities | | 175,924 | - | - | 175,924 |
| Subordinated negotiable obligations | | 136,838 | - | 9,878 | 146,716 |
| Provisions | (i) | 273,161 | - | 3,426 | 276,587 |
| Deferred income tax liabilities (*) | (g) | - | - | 23,150 | 23,150 |
| Other non-financial liabilities | (h) | 2,082,446 | - | 117,653 | 2,200,099 |
| **TOTAL LIABILITIES** | | **44,351,981** | **-** | **83,107** | **44,435,088** |
| Shareholders' equity attributable to controlling interest | | 6,056,228 | - | 299,644 | 6,355,872 |
| Shareholders' equity attributable to non-controlling interest | | 157,707 | - | 6,185 | 163,892 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **6,213,935** | **-** | **305,829** | **6,519,764** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | (j) (k) | **50,565,916** | **-** | **388,936** | **50,954,852** |

(*) Balances are exposed without considering the restatement made under Note 2.14.

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- Reconciliation of consolidated shareholders' equity as of December 31, 2017

| | Ref. | Balances under Argentine Central Bank's rules | Reclassifications | Valuation adjustments | Balances under IFRS |
|---|---|---|---|---|---|
| | | (In thousands of pesos) | | | |
| Cash and bank deposits | | 3,951,549 | - | - | 3,951,549 |
| Debt securities at fair value through profit or loss | (a) | 13,705,933 | 1,161,897 | - | 14,867,830 |
| Derivative instruments | | 46,217 | - | - | 46,217 |
| Repo transactions | | 115,164 | - | - | 115,164 |
| Other financial assets | | 1,771,044 | (35,329) | - | 1,735,715 |
| Loans and other financing arrangements | (b) | 39,552,977 | - | (208,418) | 39,344,559 |
| Other debt securities | (a) | 1,796,189 | (1,161,897) | (16,141) | 618,151 |
| Financial assets pledged as collateral | | 2,187,842 | - | - | 2,187,842 |
| Current income tax assets | | 203,009 | - | - | 203,009 |
| Investments in equity instruments | | 213,616 | - | - | 213,616 |
| Investments in subsidiaries, associates and joint ventures | | (2,510) | 13,364 | - | 10,854 |
| Bank premises & equipment (*) | (c) | 1,837,732 | | 1,060,151 | 2,897,883 |
| Intangible assets | (d) | 542,599 | (13,364) | (403,682) | 125,553 |
| Deferred income tax assets | (g) | - | 35,329 | (918) | 34,411 |
| Other non-financial assets (*) | (e) | 144,018 | - | (730) | 143,288 |
| **TOTAL ASSETS** | | **66,065,379** | **-** | **430,262** | **66,495,641** |
| Deposits | | 20,803,763 | - | - | 20,803,763 |
| Derivative instruments | | 65,756 | - | - | 65,756 |
| Repo transactions | | 1,061,552 | - | - | 1,061,552 |
| Other financial liabilities | | 5,809,110 | - | - | 5,809,110 |
| Loans from the Argentine Central Bank and other financial institutions | | 496,001 | - | - | 496,001 |
| Negotiable obligations issued | (f) | 26,597,607 | - | (7,787) | 26,589,820 |
| Current income tax liabilities | | 168,092 | - | - | 168,092 |
| Provisions | (i) | 385,914 | - | 11,719 | 397,633 |
| Other non-financial liabilities | (h) | 2,745,620 | - | 192,820 | 2,938,440 |
| **TOTAL LIABILITIES** | | **58,133,415** | **-** | **196,752** | **58,330,167** |
| Shareholders' equity attributable to controlling interest | | 7,649,671 | - | 227,882 | 7,877,553 |
| Shareholders' equity attributable to non-controlling interest | | 282,293 | - | 5,628 | 287,921 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **7,931,964** | **-** | **233,510** | **8,165,474** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | (j) (k) | **66,065,379** | **-** | **430,262** | **66,495,641** |

(*) Balances are exposed without considering the restatement made under Note 2.14.

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Reconciliation of consolidated net income and total comprehensive income for the fiscal year ended December 31, 2017

| | Ref. | Balances under Argentine Central Bank's rules | Reclassifications | Valuation adjustments | Balances under IFRS |
|---|---|---|---|---|---|
| | | (In thousands of pesos) | | | |
| Interest and adjustments income | (b) | 10,214,218 | 733 | 35,748 | 10,250,699 |
| Interest and adjustments expense | (f) | (6,252,447) | - | - | (6,252,447) |
| **Net interest income** | | **3,961,771** | **733** | **35,748** | **3,998,252** |
| Fee and commission income | | 3,599,433 | - | - | 3,599,433 |
| Fee and commission expense | (f) | (652,841) | - | 53,335 | (599,506) |
| **Net fee and commission income** | | **2,946,592** | **-** | **53,335** | **2,999,927** |
| Net income (loss) from measurement of financial instruments at fair value through profit or loss | (a) | 1,939,189 | (733) | (657) | 1,937,799 |
| Gold and foreign currency quotation differences | | (233,632) | - | - | (233,632) |
| Other operating income (*) | (b)(d) | 3,688,912 | - | - | 3,688,912 |
| Loan loss provision | (b) | (1,159,018) | - | (3,565) | (1,162,583) |
| **Net operating income** | | **11,143,814** | **-** | **84,861** | **11,228,675** |
| Employee benefits | (h)(j) | (3,323,227) | - | (514,784) | (3,838,011) |
| Administrative expenses | (d)(e) | (2,522,066) | - | (89,661) | (2,611,727) |
| Depreciation and impairment of assets (*) | (c)(d) | (165,868) | - | 15,572 | (150,296) |
| Other operating expenses | (i) | (3,014,885) | - | 7,014 | (3,007,871) |
| **Operating income (loss)** | | **2,117,768** | **-** | **(496,998)** | **1,620,770** |
| Share of profit (loss) of associates and joint ventures | | - | - | - | - |
| **Income (loss) before tax from continuing activities** | | **2,117,768** | **-** | **(496,998)** | **1,620,770** |
| Income tax from continuing activities (*) | (g) | (495,645) | - | (23,027) | (518,672) |
| **Net income (loss) from continuing activities** | | **1,622,123** | **-** | **(520,025)** | **1,102,098** |
| Income (loss) from discontinued operations | | - | - | - | - |
| Income tax from discontinued activities | | - | - | - | - |
| **Net income for the year** | | **1,622,123** | **-** | **(520,025)** | **1,102,098** |

| | | | | | |
|---|---|---|---|---|---|
| Net income for the year attributable to the controlling company's shareholders | | 1,593,439 | 22,770 | (511,500) | 1,104,709 |
| Net income for the year attributable to non-controlling interests | | 28,684 | (22,770) | (8,525) | (2,611) |

(*) Balances are exposed without considering the restatement made under Note 2.14.

There were no adjustments or reclassifications in other comprehensive income for the fiscal year ended

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December 31, 2017.

- Reconciliation of cash flows for the year ended December 31, 2017

The main difference lies in the fact that the statement of cash flows and cash equivalents presented under IFRS was prepared using the indirect method, as opposed to the direct method under the previous standards. Furthermore, it should be noted that under IFRS, certain trust have been consolidated, which under the BCRA rules were not considered subject to consolidation.

Under the BCRA's standards, the balance of the account Cash and Cash Resources was regarded as cash and cash equivalents.
Under IFRS, cash and cash equivalents is comprised of Cash and Bank Deposits, including purchase-sale transactions of foreign currency pending settlement, with original maturity of three months or less.

**Adjustments to calculate cash and cash equivalents as of January 1, 2017**

| | Balances as per BCRA's standards | Reclassifications and adjustments | Consolidation of trusts | Balances under IFRS |
|---|---|---|---|---|
| | (In thousands of Ps.) | | | |
| Cash | 756,704 | - | - | 756,704 |
| Bank deposits | 6,564,966 | - | 24,959 | 6,589,925 |
| Purchase-sale transactions of foreign currency pending settlement | - | - | - | - |
| **Total** | **7,321,670** | **-** | **24,959** | **7,346,629** |

**Adjustments to calculate cash and cash equivalents as of December 31, 2017**

| | Balances as per BCRA's standards | Reclassifications and adjustments | Consolidation of trusts | Balances under IFRS |
|---|---|---|---|---|
| | (In thousands of Ps.) | | | |
| Cash | 933,666 | - | - | 933,666 |
| Bank deposits | 2,854,534 | - | 22,542 | 2,877,076 |
| Purchase-sale transactions of foreign currency pending settlement | - | 140,807 | - | 140,807 |
| **Total** | **3,788,200** | **140,807** | **22,542** | **3,951,549** |

- Explanatory notes to the IFRS transition adjustments

Below is a brief review of the main IFRS transition adjustments affecting consolidated shareholders' equity as of January 1, 2017 (transition date to the IFRS), and as of December 31, 2017, consolidated net income and total comprehensive income for the year ended December 31, 2017, which arise from the comparison of the accounting criteria followed by the Group in preparing its financial statements as of December 31, 2017 (Argentine Central Bank's accounting framework) to the accounting standards applied by the Group in preparing its financial statements since fiscal year commenced on January 1, 2018 (IFRS).

*(a) Debt securities at fair value through profit or loss and other debt securities*

Under the IFRS, financial assets are classified into three categories: financial assets measured at amortized cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit and loss, on the basis of the business model and the specific features of the instruments.

The Bank's accounting criteria pursuant to the previous accounting rules differed from the provisions of the IFRS in certain aspects, namely:

(i) Government securities with no volatility published by the Argentine Central Bank have been valued at their acquisition cost subject to an exponential increase based on the internal rate of return;
(ii) Loans are stated at their acquisition cost, plus accrued interest on the basis of the contractual rate;
(iii) Participation certificates in financial trusts have been valued taking into account the share of liabilities in net assets, as per the financial statements of the respective trusts, adjusted for the effect the application of the Argentine Central Bank's rules may have had on them, where applicable;
(iv) Unlisted negotiable obligations and debt securities of financial trusts have been valued at their acquisition cost subject to an exponential increase based on the internal rate of return.

*(b) Loans and other financing arrangements*

The Bank's loan portfolio was originated within a business model whose main objective is collecting contractual cash flows (principal and interest). Under IFRS 9 "Financial Instruments," an entity's loan portfolio is required to be carried at amortized cost, using the effective interest method, with fees and commissions earned and incremental direct costs related to lending activities being added to the rate and accrued throughout the term of the loan.

Under the previous standards, interest was accrued on an exponential distribution basis in the period in which such interest was accrued, with fees and commissions earned and direct costs being recognized as generated.

*(c) Bank premises & equipment*

The Bank availed of the voluntary exemption set forth in IFRS 1 to measure its headquarters and its own branches. This entails measuring such items at their fair value and using such fair value as the cost attributed as of the transition date. The Bank has relied on appraisals in order to estimate the fair value of all such assets.

*(d) Intangible assets*

Under IFRS, an intangible asset is an identifiable non-monetary asset that has no physical substance. In order for an intangible asset to be eligible for recognition, the Bank must have control over, and future economic benefits are to be derived from, that asset. Under the previous accounting standards, the Bank recognized intangible assets not eligible for recognition as such under IFRS.

*(e) Other non-financial assets*

Under the previous accounting standards, the Bank capitalized costs associated to stationery and office supplies. According to the IFRS, these costs do not qualify for capitalization.

*(f) Negotiable obligations issued*

Under IFRS 9 "Financial Instruments," negotiable obligations were carried at amortized cost, using the effective interest method, with direct placement expenses having been recognized as a decrease in liabilities. Under the previous accounting standards, certain series of negotiable obligations were measured at the outstanding balance of principal and accrued interest and expenses were charged to income or loss at the time of issuance.

*(g) Deferred income tax*

Under IFRS, the income tax liability for the year encompasses current and deferred taxes. Current income tax is calculated on the basis of enacted, or substantially enacted, laws as of the balance sheet date. Deferred tax is recognized pursuant to the asset-liability method, that is, for the temporary differences arising from the valuation of assets and liabilities for tax and accounting reporting purposes. Deferred tax is assessed using tax rates (and laws) that are, or are about to be, enacted as of the date of the financial statements and that are expected to be applicable upon the realization of the respective deferred tax asset, or upon the settlement of the deferred tax liability.

Under the previous accounting standards, the Bank recognized the current tax liability for the year.

*(h) Other non-financial liabilities*

Under the IFRS, short-term employee benefits, such as, vacations, salaries and wages, and social security contributions, are recognized as a liability for the undiscounted amount the Bank expects to pay for such benefits. Under the previous accounting standards, the Bank set up a vacation accrual for an amount equal to the vacation bonus. The adjustment entails recognizing the vacation accrual for the total amount of the benefit the Bank expects to pay.

*(i) Provisions*

Under IFRS, the Bank's customer loyalty program must be valued at the fair value of the points that are expected to be exchanged by customers.

BHN Vida S.A. and BHN Seguros Generales S.A., subsidiaries of BHN Sociedad de Inversión S.A., have evaluated at the end of each year insurance claim liabilities on the basis of current estimates of future cash flows stemming from their insurance contracts, in accordance with IFRS 4.

*(j) Reserve for stock-based compensation plan*

The Bank has a stock-based compensation plan in place, pursuant to which employees receive shares of the Bank's capital stock in exchange for their services. Under IFRS, the fair value of the services received is recognized as an expense as of the grant date and such services are not re-measured for subsequent changes in the price of the shares. As of November 30, 2017, the Group recognized the fair value of the treasury shares set aside for the plan under the line "Personnel benefits," with its related contra-account in shareholders' equity. The plan will not result in subsequent charges to income.

*(k) Decrease in the equity interest in BACS*

Under the IFRS, a change in an equity interest in a subsidiary, without loss of control, is carried in equity. Under the previous accounting standards, the impact of such change was charged to income for the year ended December 31, 2017.

## 4. SIGNIFICANT ACCOUNTING CRITERIA AND ESTIMATES

The preparation of these consolidated financial statements in accordance with the accounting framework established by the Argentine Central Bank requires the use of certain significant accounting estimates. It also requires that Management make judgments in applying the accounting standards set forth by the Argentine Central Bank to define the Group's accounting criteria.

The Group has identified the following areas which involves a higher degree of judgment or complexity, or the areas in which the assumptions and estimates are material for these consolidated financial statements, as essential to understand the underlying accounting/financial reporting risks.

a- Fair value of derivate instruments and other instruments

The fair value of financial instruments not listed in active markets is determined using valuation techniques. Such techniques are validated and reviewed periodically by qualified personnel independent from the area which developed them. All models are assessed and adjusted before being put into use in order to ensure that results reflect current information and comparable market prices. Where possible, models rely on observable information only; however, certain factors, such as the Group's own and the counterparty's credit risk, volatilities and correlations, require the use of estimates. Changes in the assumptions about these factors may affect the reported fair value of financial instruments.

The information concerning instruments which were not measured in accordance with market data is detailed in Note 6. In this regard, Management determines whether the substantial risks and reward of ownership of financial assets and financial leases are transferred to the counterparty, in particular, those entailing higher risks.

b- Impairment losses on loans and advances

The Group makes estimates about its customers' repayment capacity to determine the allowance level it is required to set up according to the Argentine Central Bank regulations.

Such estimates are made as frequently as required by the minimum loan loss allowance guidelines set forth by the Argentine Central Bank.

c- Impairment of non-financial assets

Intangible assets with definite useful life and bank premises & equipment are amortized or depreciated on a straight-line basis during their estimated useful lives. The Group monitors the conditions associated with these assets to determine whether the events and circumstances warrant a review of the remaining amortization or depreciation term and whether there are factors or circumstances indicating impairment in the value of the asset which might not be recoverable.

Identifying the indicators of impairment of bank premises & equipment and intangible assets requires the use of judgment. The Group has concluded that there were no indicators of impairment for any of the periods reported in its consolidated financial statements; accordingly, it has not estimated any recoverable value.

d- Structured entities.

Structured entities are designed so that voting rights or similar rights are not the dominant factor to decide who controls the entity. The use of judgment is also required to determine if the relationship between the Group and a structured entity indicates that the structured entity is controlled by the Group. The Entity does not consolidate structured entities that are not under its control.

As it sometimes may be hard to determine if the Group controls a structured entity, management evaluates exposure to risks and rewards, as well as the operating decision-making capacities for the relevant structured entity. In many cases, there are elements which, considered independently, indicate control or lack of control over a structured entity, but when considered as a whole make it difficult to reach a clear conclusion. If there are more arguments to believe the existence of control, the structured entity is consolidated. The Entity has evaluated the following to determine whether control exists or not:

- the purpose and design of the trust
- identification of relevant activities
- decision-making process for certain activities

- if the Group's rights allow it to manage the trust’s relevant activities
- if the Group is exposed, or has a right to variable results from its share in that trust

If the Group has the capacity to affect those results through its power over the trust.

e- Capitalization of financial costs

The Group owns a building known as “Edificio del Plata” (see Note 12), which since its acquisition date until September 28, 2018, qualified as a qualifying asset according to the definition of IAS 23, in that it took a substantial period of time to get ready for its intended use. The Group issued series XXIX, tranche II negotiable obligation in order to use the proceeds from the issuance to purchase such building.

According to the definition of IAS 23, financial costs include interest and other costs, such as exchange gains (losses) from foreign-currency loans to the extent considered adjustments to financial costs. Therefore, the Group has capitalized interest and exchange gains (losses) from series XXIX, tranche II negotiable obligation in the proportion attributable to the acquisition of such building until September 28, 2018, on which date the Board of Directors of the Bank resolved to discontinue the investment in the construction plan of the new corporate head office, changing the expected use for the property to investment property.

f- Fair value of Investment Property

The fair value of real property recorded in the Investment Property item is assessed by independent appraiser experts outsourced to assess the value of each item of real property. Such appraiser experts act as advisors of the Board of Directors and have an obligation to meet the market knowledge, reputation and independence conditions, as well as the applicable professional standards.

The fair value of investment property is the price for which it could be exchanged between interested and duly informed parties, in a transaction carried out on an arm’s length basis.

Valuations are carried out using the market approach, which assumes a well-informed buyer will not pay for an asset more than the purchase price for a similar asset. When applying this approach, the independent appraiser analyzes recent sales or offers of similar comparable properties. If there are no identical comparables for the asset, the sale price of comparables are adjusted to match the characteristics of the relevant asset

The periodicity for valuation reviews is based on the findings of monitoring procedures for changes in the fair value of assets carried out before the end of each fiscal year. Valuation reviews shall be carried out at least every 5 years, even if changes in fair value of assets are not significant for prior periods.

g- Income tax and deferred tax

The assessment of current and deferred tax assets and liabilities requires a significant level of judgment. Current income tax is accounted for according to the amounts expected to be paid, while deferred income tax is accounted for on the basis of the temporary differences between the carrying amount of assets and liabilities and their tax base, at the rates expected to be in force at the time of reversal of such differences.

A deferred tax asset is recognized when future taxable income is expected to exist to offset such temporary differences, based on management's assumptions about the amounts and timing of such future taxable income. Then, management needs to determine whether deferred tax assets are likely to be used and offset against future taxable income. Actual results may differ from these estimates, for instance, changes in the applicable tax laws or the outcome of the final review of the tax returns by the tax authorities and tax courts.

Future taxable income and the number of tax benefits likely to be available in the future are based on a medium-term business plan prepared by management, on the basis of expectations which are deemed reasonable.

h- Provisions for lawsuits

The Group is subject to several claims, lawsuits and other legal proceedings in which a third party seeks payments for alleged damages, losses or other compensation. In general terms, the Group's potential liabilities owing to said third parties cannot be reliably estimated. Management periodically reviews the status of each substantial case and calculates the potential financial exposure, where applicable. When a potential loss arising from claims, lawsuits and other legal proceedings is deemed probable and the amount can be reasonably estimated, the Group accounts for a provision. Provisions for contingent losses reflect a reasonable estimate of losses to be incurred, based on information available to management, as of the date of these financial statements.

These estimated contingencies for each case brought to court are based on the recommendations of each external law firm, entrusted with the duty of following up on and handling these matters. On the other hand, cases under mediation proceedings are estimated on the basis of current case law for comparable assumptions.

## 5. CASH AND BANK DEPOSITS

The table below shows a breakdown of items comprising cash and cash equivalents:

| | **12/31/2018** | **12/31/2017** | **01/01/2017** |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Cash | 1,393,427 | 933,666 | 756,704 |
| Financial institutions and correspondents | 6,571,467 | 2,877,076 | 6,589,925 |
| Others | 867,892 | 140,807 | - |
| **Cash and bank deposits** | **8,832,786** | **3,951,549** | **7,346,629** |

## 6. FINANCIAL INSTRUMENTS

The Group held the following financial instrument portfolios:

| **Instrument portfolio as of 12/31/2018** | Fair value – Net income (loss) | Amortized cost | Fair value – OCI | Total |
|---|---|---|---|---|
| | (In thousands of Ps.) | | | |
| **Assets** | **20,699,909** | **57,852,074** | **-** | **78,551,983** |
| Cash and bank deposits | - | 8,832,786 | - | 8,832,786 |
| Debt securities at fair value through profit or loss | 19,287,877 | - | - | 19,287,877 |
| Derivative instruments | 69,478 | - | - | 69,478 |
| Repo transactions | - | 589,474 | - | 589,474 |
| Other financial assets | 256,263 | 2,054,834 | - | 2,311,097 |
| Loans and other financing arrangements | - | 43,566,664 | - | 43,566,664 |
| Other debt securities | - | 1,700,018 | - | 1,700,018 |
| Financial assets pledged as collateral | 898,816 | 1,108,298 | - | 2,007,114 |
| Investments in equity instruments | 187,475 | - | - | 187,475 |

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| | | | | |
|---|---|---|---|---|
| **Liabilities** | **(887,792)** | **(69,238,707)** | **-** | **(70,126,499)** |
| Deposits | - | (29,307,580) | - | (29,307,580) |
| Liabilities at fair value through profit or loss | (751,511) | - | - | (751,511) |
| Derivative instruments | (136,281) | - | - | (136,281) |
| Repo transactions | - | (65,188) | - | (65,188) |
| Other financial liabilities | | (7,547,776) | - | (7,547,776) |
| Loans from the Argentine Central Bank and other financial institutions | - | (657,696) | - | (657,696) |
| Negotiable obligations issued | - | (31,660,467) | - | (31,660,467) |
| **Total** | **19,812,117** | **(11,386,633)** | **-** | **8,425,484** |

| **Instrument portfolio as of 12/31/2017** | Fair value – Net income (loss) | Amortized cost | Fair value – OCI | Total |
|---|---|---|---|---|
| | (In thousands of Ps.) | | | |
| **Assets** | **15,698,029** | **47,382,614** | **-** | **63,080,643** |
| Cash and bank deposits | - | 3,951,549 | - | 3,951,549 |
| Debt securities at fair value through profit or loss | 14,867,830 | - | - | 14,867,830 |
| Derivative instruments | 46,217 | - | - | 46,217 |
| Repo transactions | - | 115,164 | - | 115,164 |
| Other financial assets | 402,510 | 1,333,205 | - | 1,735,715 |
| Loans and other financing arrangements | - | 39,344,559 | - | 39,344,559 |
| Other debt securities | - | 618,151 | - | 618,151 |
| Financial assets pledged as collateral | 167,856 | 2,019,986 | - | 2,187,842 |
| Investments in equity instruments | 213,616 | - | - | 213,616 |
| **Liabilities** | **(65,756)** | **(54,760,246)** | **-** | **(54,826,002)** |
| Deposits | - | (20,803,763) | - | (20,803,763) |
| Derivative instruments | (65,756) | - | - | (65,756) |
| Repo transactions | - | (1,061,552) | - | (1,061,552) |
| Other financial liabilities | - | (5,809,110) | - | (5,809,110) |
| Loans from the Argentine Central Bank and other financial institutions | - | (496,001) | - | (496,001) |
| Negotiable obligations issued | - | (26,589,820) | - | (26,589,820) |
| **Total** | **15,632,273** | **(7,377,632)** | **-** | **8,254,641** |

| **Instrument portfolio as of 01/01/2017** | Fair value – Net income (loss) | Amortized cost | Fair value – OCI | Total |
|---|---|---|---|---|
| | | (In thousands of Ps.) | | |
| **Assets** | **4,571,649** | **44,631,689** | **-** | **48,828,348** |
| Cash and bank deposits | - | 7,346,629 | - | 7,346,629 |
| Debt securities at fair value through profit or loss | 3,633,174 | - | - | 3,633,174 |
| Derivative instruments | 169,717 | - | - | 169,717 |
| Repo transactions | - | 168,083 | - | 168,083 |

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| | | | | |
|---|---|---|---|---|
| Other financial assets | 293,482 | 1,797,320 | - | 2,090,802 |
| Loans and other financing arrangements | - | 31,668,960 | - | 31,668,960 |
| Other debt securities | - | 700,958 | - | 700,958 |
| Financial assets pledged as collateral | 374,990 | 2,949,739 | - | 2,949,739 |
| Investments in equity instruments | 100,286 | - | - | 100,286 |
| **Liabilities** | **(187,108)** | **(41,572,220)** | **-** | **(41,759,328)** |
| Deposits | - | (17,736,483) | - | (17,736,483) |
| Derivative instruments | (187,108) | - | - | (187,108) |
| Repo transactions | - | (1,752,267) | - | (1,752,267) |
| Other financial liabilities | | (4,653,565) | - | (4,653,565) |
| Loans from the Argentine Central Bank and other financial institutions | - | (707,463) | - | (707,463) |
| Negotiable obligations issued | - | (16,575,726) | - | (16,575,726) |
| Subordinated negotiable obligations | - | (146,716) | **-** | (146,716) |
| **Total** | **4,384,541** | **3,059,469** | **-** | **7,069,020** |

**Fair values**

The Group classifies the fair value of its financial instruments in 3 levels, according to the quality of the data used in fair value assessment.

Level 1 Fair Value: The fair value of financial instruments traded in active markets (such as, publicly-traded derivatives, and securities held for trading or available for sale) is based on market listed prices as of the reporting period end. The market price used in financial assets held by the Group is the current purchase price. These instruments are included in Level 1.

Level 2 Fair Value: The fair value of financial instruments that are not traded in active markets, for example, the derivatives available over the counter, is determined using valuation techniques that maximize the use of observable information and relies the least possible on the Group's specific estimates. If all the material variables to establish the fair value of a financial instrument are observable, the instrument is included in Level 2.

Level 3 Fair Value: If one or more material variables are not based on observable market information, the instrument is included in Level 3. This is the case of unlisted equity instruments.

The table below shows the Group's financial instruments measured at fair value as of the indicated dates:

| **Instrument portfolio as of 12/31/2018** | Level 1 Fair Value | Level 2 Fair Value | Level 3 Fair Value |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| **Assets** | **20,454,431** | **245,478** | **-** |
| Debt securities at fair value through profit or loss | 19,123,187 | 164,690 | - |
| Derivative instruments | - | 69,478 | - |
| Other financial assets | 256,263 | - | - |
| Financial assets pledged as collateral | 898,816 | - | - |
| Investments in equity instruments | 176,165 | 11,310 | - |
| **Liabilities** | **(751,511)** | **(136,281)** | **-** |
| Liabilities at fair value through profit or loss | (751,511) | - | - |
| Derivative instruments | - | (136,281) | - |
| **Total** | **19,702,920** | **109,197** | **-** |

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| Instrument portfolio as of 12/31/2017 | Level 1 Fair Value | Level 2 Fair Value | Level 3 Fair Value |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| **Assets** | **15,305,672** | **392,357** | **-** |
| Debt securities at fair value through profit or loss | 14,521,690 | 346,140 | - |
| Derivative instruments | - | 46,217 | - |
| Other financial assets | 402,510 | - | - |
| Financial assets pledged as collateral | 167,856 | - | - |
| Investments in equity instruments | 213,616 | - | - |
| **Liabilities** | **-** | **(65,756)** | **-** |
| Derivative instruments | - | (65,756) | - |
| **Total** | **15,305,672** | **326,601** | **-** |

| Instrument portfolio as of 01/01/2017 | Level 1 Fair Value | Level 2 Fair Value | Level 3 Fair Value |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| **Assets** | **3,456,405** | **1,115,244** | **-** |
| Debt securities at fair value through profit or loss | 2,687,647 | 945,527 | - |
| Derivative instruments | - | 169,717 | - |
| Other financial assets | 293,482 | - | - |
| Financial assets pledged as collateral | 374,990 | - | - |
| Investments in equity instruments | 100,286 | - | - |
| **Liabilities** | **-** | **(187,108)** | **-** |
| Derivative instruments | - | (187,108) | - |
| **Total** | **3,453,405** | **928,136** | **-** |

**Valuation Techniques**

Valuation techniques to determine fair values include:

- Market or listed prices of similar instruments; and
- Estimated present value of instruments.

All estimates in fair value are included in Level 2, in which fair values were assessed on the basis of present values, adjusted for the issuer's or the entity's own credit risk.

Income (loss) from interest accrued on the Instruments at the effective rate is directly charged to net income (loss) for the year.

**Repo transactions**

The account is breakdown as follows:

Assets

| Assets | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Repo transactions | 630,037 | 114,707 | 727,810 |

Liabilities

| Assets | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Repo transactions | 59,224 | (1,184,506) | (1,954,579) |

**Fair value of other financial instruments**

The Group has financial instruments that are not measured at fair value. For most of them, the fair value does not substantially differ from their residual value, since the interest rate payable or receivable is similar to market rates or the instrument is short-term. The following substantial differences were identified as of year-end:

| Instruments as of 12/31/2018 | Amortized cost | Fair value | |
|---|---|---|---|
| | | Amount | Level |
| | (In thousands of Ps.) | | |
| Loans and other financing arrangements | 43,566,664 | 41,371,752 | Level 2 |
| Negotiable obligations issued | (31,660,467) | (29,623,295) | Level 1 and 2 |

| Instruments as of 12/31/2017 | Amortized cost | Fair value | |
|---|---|---|---|
| | | Amount | Level |
| | (In thousands of Ps.) | | |
| Loans and other financing arrangements | 39,344,559 | 38,506,447 | Level 2 |
| Negotiable obligations issued | (26,589,820) | (26,988,841) | Level 1 and 2 |

| Instruments as of 01/01/2017 | Amortized cost | Fair value | |
|---|---|---|---|
| | | Amount | Level |
| | (In thousands of Ps.) | | |
| Loans and other financing arrangements | 31,668,960 | 30,509,266 | Level 2 |
| Negotiable obligations issued | (16,575,726) | (16,476,626) | Level 1 and 2 |

**Impairment**

Below is a breakdown of changes in allowances for loan losses for the fiscal year:

| | 12/31/2018 |
|---|---|
| | (In thousands of Ps.) |
| **Balance at the beginning** | **1,368,491** |
| Impairment for the year | 1,828,873 |
| Write off | (1,084,210) |
| Recovery for the year | (33,584) |
| **Balance at year-end** | **2,079,570** |

## 7. LOANS AND OTHER FINANCING ARRANGEMENTS

The allowances for loan losses established by the Bank cover the minimum allowances required by the Argentine Central Bank, which are determined according to the level of compliance of debtors, the guarantees securing the loans and the debtor's economic and financial condition, among others, the allowances set up for individual loans refinanced in accordance with the guidelines described in Communication "A" 4583, and supplementary rules, as amended, and certain estimates concerning the impact of the current economic situation on the recoverability of the loan portfolio which includes self-insurance of risks stemming from death and disability on the debit balance of the financing covered by contracts made with insurance companies.

All consumer loans that must be fully accounted for in accordance with the rules in force are written off from the Bank's assets one month after the date on which such provision is made.

The individual mortgage loans granted and managed by the Retail Banking network, in which the participating banks entirely assume guarantees for cash flows, have been classified as normal for purposes of calculating provisioning levels.

Based on the foregoing, the Group's Board of Directors believes that the allowances for loan losses set up are sufficient to cover the minimum allowances required by the Argentine Central Bank rules on the total amount of the portfolio.

The following table shows a breakdown of balances of loans and other financing arrangements:

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| **To the non-financial public sector** | **29,146** | **89,573** | **153,032** |
| **Other financial institutions** | **415,506** | **455,718** | **635,772** |
| Interfinancial - calls granted | 250,000 | - | 50,000 |
| Other loans to domestic financial institutions | 148,477 | 435,134 | 581,579 |
| Accrued interest, adjustments and quotation differences receivable | 17,455 | 21,145 | 5,371 |
| Allowance for loan losses (Schedule R) | (426) | (561) | (1,178) |
| **To the non-financial private sector and foreign residents** | **43,122,012** | **38,799,268** | **30,880,156** |
| Overdraft facilities | 595,096 | 1,221,539 | 290,153 |
| Promissory notes | 303,493 | 846,372 | 687,965 |
| Mortgage loans | 5,386,310 | 4,086,212 | 3,570,557 |
| Pledge loans | 209,348 | 278,982 | 644,696 |
| Consumer loans | 8,537,289 | 7,577,085 | 4,935,761 |
| Credit cards | 18,241,934 | 17,263,154 | 15,793,711 |
| Financial leases | 122,322 | 159,904 | 155,775 |
| Loans to entity's personnel | 285,741 | 208,164 | 188,312 |
| Unallocated collections | (6,259) | (41,571) | (10,277) |
| Others | 10,931,906 | 8,257,476 | 5,177,587 |
| Accrued interest and quotation differences receivable | 626,375 | 367,501 | 314,341 |

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| | | | |
|---|---|---|---|
| Documented interest | (71,785) | (68,621) | (45,878) |
| Allowances for loan losses (Schedule R) | (2,039,758) | (1,356,929) | (822,547) |
| **Total loans and other financing arrangements** | **43,566,664** | **39,344,559** | **31,668,960** |

It is worth noting that on February 28, 2019, the BCRA sent the Bank a “Mandatory Note” to request reclassification of certain debtors in the commercial portfolio under the terms of section 2.7 of the Revised Text on the rules on Minimum allowances for loan losses”.

To the date of these financial statements, the Bank's management is analyzing such request pursuant to the terms of the abovementioned regulation. However, the Bank´s Board of Directors considers that allowances for loan losses set up as of December 31, 2018 regarding the aforementioned debtors were assessed in accordance with the applicable rules to classify debtors set forth by the BCRA and reflect the findings of the analysis of the information available for each debtor as of the date of preparation of these financial statements.

## 8. DERIVATIVE INSTRUMENTS

US dollar forward transactions have been carried out, the settlement of which, in general, is made without delivery of the underlying asset but by means of the payment in Pesos of currency differences. Transactions closed through MAE call for daily settlement in Pesos and those closed through ROFEX are settled the following day (T+1) in Pesos. These transactions are mainly performed as hedge for foreign currency positions.

The composition of the Entity’s derivative instruments as of December 31, 2018 and 2017, and as of January 1, 2017 is as follows:

| | | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|---|
| | | | (In thousands of Ps.) | |
| Forward transactions | (a) | 69,478 | 46,217 | 169,717 |
| **Total assets** | | **69,478** | **46,217** | **169,717** |
| Forward transactions | (a) | (136,281) | (65,756) | (187,108) |
| **Total liabilities** | | **(136,281)** | **(65,756)** | **(187,108)** |

## 9. OTHER FINANCIAL ASSETS

The balances of other financial assets are as follows:

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | | (In thousands of Ps.) | |
| Financial trust participation certificates | 874 | 10,449 | 8,949 |
| Shares in mutual funds | 255,389 | 392,061 | 284,533 |
| Receivables from transactions pending settlement | 643,361 | 333,399 | 794,669 |
| Miscellaneous receivables | | | |
| Funds to be offset | 28,086 | 69,272 | 8,826 |
| Credit card receivables | 438,711 | 360,529 | 426,209 |
| Other | 944,676 | 570,005 | 567,616 |
| **Total other financial assets** | **2,311,097** | **1,735,715** | **2,090,802** |

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## 10. TRANSFER OF FINANCIAL ASSETS

The Bank has made transfers of financial assets as described in Note 32.3. However, pursuant to IFRS 1, derecognition criteria for financial assets under IFRS 9 were applied on a prospective basis for transactions occurring after the transition date.

However, the Bank has adopted the IFRS for the first time after its subsidiary Tarshop. Therefore, the carrying amounts of this subsidiary's assets and liabilities have been measured in the Bank's consolidated financial statements for the same carrying amounts disclosed in the financial statements of that subsidiary (except for Item 5.5. of IFRS 9).

According to IFRS, a transfer of financial assets with the aforementioned features does not qualify for derecognition; accordingly, the Group continues recognizing transferred assets in full and recognizes a financial liability for the consideration it has received.

The table below shows a breakdown of financial trusts which do not qualify for derecognition of financial assets as of December 31, 2018:

| Issuer | Financial trust | Created on | Initial trust debt security | | Estimated termination of the series |
|---|---|---|---|---|---|
| | | | Type | Amount | |
| BHSA | CHA UVA Series I | Apr-18 | A | 8,645 UVA | Oct-24 |
| | | | B | 5,765 UVA | Apr-28 |
| | | | CP | 4,802 UVA | May-32 |
| Tarshop | Series C | Oct-17 | B | 32,259 | Jan-19 |
| Tarshop | Series CI | Jan-18 | B | 34,456 | Jan-19 |
| Tarshop | Series CII | Mar-18 | B | 35,695 | Feb-19 |
| Tarshop | Series CIII | Apr-18 | B | 45,455 | Feb-19 |
| Tarshop | Series CIV | Jul-18 | A | 169,647 | Feb-19 |
| | | | B | 37,516 | Feb-19 |
| Tarshop | Series CV | Aug-18 | A | 177,460 | Feb-19 |
| | | | B | 43,202 | Feb-19 |
| Tarshop | Series CVI | Aug-18 | A | 177,525 | Feb-19 |
| | | | B | 17,678 | Feb-19 |
| Tarshop | Privado III | Dec-16 | A | 799,000 | Feb-19 |
| Tarshop | Privado IV | Dec-17 | A | 1,979,000 | Feb-19 |
| Tarshop | Privado V | Jul-18 | A | 1,405,000 | Feb-19 |
| Tarshop | Privado VI | Oct-18 | A | 993,000 | Feb-19 |

The table below shows a breakdown of financial trusts which do not qualify for derecognition of financial assets as of December 31, 2017:

| Issuer | Financial trust | Created on | Initial trust debt security | | Estimated termination of the series |
|---|---|---|---|---|---|
| | | | Type | Amount | |
| Tarshop | Series XCIV | Feb-17 | A | 177,249 | Mar-18 |
| Tarshop | Series XCV | Mar-17 | A | 175,046 | Apr-18 |
| | | | B | 11,460 | May-18 |
| Tarshop | Series XCVI | Apr-17 | A | 168,633 | Jun-18 |

| | | | | | |
|---|---|---|---|---|---|
| | | | B | 11,740 | Jul-18 |
| Tarshop | Series XCVII | Jun-17 | A | 194,230 | Aug-18 |
| | | | B | 28,161 | Oct-18 |
| Tarshop | Series XCVIII | Aug-17 | A | 203,612 | Sep-18 |
| | | | B | 29,521 | Nov-18 |
| Tarshop | Series XCIX | Aug-17 | A | 181,954 | Oct-18 |
| | | | B | 28,629 | Dec-18 |
| Tarshop | Series C | Oct-17 | A | 205,022 | Nov-18 |
| | | | B | 32,259 | Jan-19 |
| Tarshop | Privado III | Dec-16 | A | 2,427,000 | Oct-18 |
| Tarshop | Privado IV | Dec-17 | A | 227,000 | Jun-19 |

The table below shows a breakdown of financial trusts which do not qualify for derecognition of financial assets as of January 1, 2017:

| Issuer | Financial trust | Created on | Initial trust debt security | | Estimated termination of the series |
|---|---|---|---|---|---|
| | | | Type | Amount | |
| Tarshop | Series LXXXII | Feb-15 | A | 87,450 | Mar-16 |
| Tarshop | Series LXXXIII | Jul-15 | A | 111,222 | Aug-16 |
| Tarshop | Series LXXXIV | Aug-15 | A | 104,865 | Sep-16 |
| Tarshop | Series LXXXV | Dec-15 | A | 128,500 | Jan-17 |
| Tarshop | Series LXXXVI | Feb-16 | A | 126,050 | Mar-17 |
| Tarshop | Series LXXXVII | Mar-16 | A | 141,066 | May-17 |
| Tarshop | Series LXXXVIII | May-16 | A | 148,489 | Jun-17 |
| Tarshop | Series LXXXIX | Jun-16 | A | 143,530 | Jul-17 |
| Tarshop | Series XC | Jul-16 | A | 150,025 | Aug-17 |
| Tarshop | Series XCI | Oct-16 | A | 148,300 | Nov-17 |
| Tarshop | Series XCII | Nov-16 | A | 155,700 | Dec-17 |
| Tarshop | Series XCIII | Dec-16 | A | 166,715 | Jan-18 |
| Tarshop | Series XCIV | Feb-17 | A | 177,249 | Mar-18 |
| Tarshop | Privado I | Oct-15 | A | 1,162,400 | Sep-17 |
| Tarshop | Privado II | Feb-16 | A | 1,980,800 | Feb-18 |
| Tarshop | Privado III | Dec-16 | A | 646,000 | Jul-18 |

Furthermore, as of December 31, 2018, the Group maintains the following repo transactions:

- Ps. 630,037 thousand in Repos booked under off-balance sheet accounts.
- Ps. 59,224 thousand in Repos booked under "Financial assets pledged as collateral".

## 11. OTHER NON-FINANCIAL ASSETS

The balances of other non-financial assets are as follows:

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Prepaid fees to directors' and supervisory committee's members | 95,428 | 46,938 | 36,229 |
| Tax prepayments | 387,091 | 54,280 | 92,235 |
| Prepayments for purchase of real estate (see | - | - | 176,551 |

| | | | |
|---|---|---|---|
| Note 12) | | | |
| Other prepayments | 113,807 | 26,134 | 44,854 |
| Investment property (Schedule F) | 3,244,135 | 174,776 | 154,747 |
| Other | 20,642 | 12,734 | 27,751 |
| **Total other non-financial assets** | **3,861,103** | **314,862** | **532,367** |

<u>Investment property</u>

Changes in investment property are included in Schedule F accompanying these financial statements.

The Amounts included in the income of the fiscal year for Investment property are as follows:

| | **12/31/2018** | **12/31/2017** |
|---|---|---|
| | (in thousands of Pesos) | |
| Income | 7,033 | 5,582 |
| Direct expenses for property transactions | (7,429) | (2,000) |

Net results from investment property as of December 31, 2018 and 2017 amount to losses by Ps. 396 thousand, and income by Ps. 3,582 thousand, recognized in “Other operating income”, “Administrative expenses” and “Other operating expenses” in the comprehensive income statement.

During the fiscal years ended December 31, 2018 and 2017, there were no sales of investment property.

As of December 31, 2018, there are no restrictions to the disposal of the property included in this item. Likewise, there are no contractual obligations to acquire, build or develop investment properties, or for repairs, maintenance or improvements of investment property.

**12. BANK PREMISES AND EQUIPMENT**

Changes in bank premises and equipment are included in Schedule F accompanying these financial statements. The accounting allocation of depreciation for the year is reported in note 2.

On April 20, 2016, the Bank purchased the building known as “Edificio del Plata” through a public auction held by the Government of the City of Buenos Aires, with the purpose of setting up a branch and corporate offices. The purchase price was US Dollars sixty-eight million one hundred and fourteen thousand (68,114,000). On April 29, 2016, fifteen percent of the price (15%) was paid. The balance was paid on April 20, 2017. The title deed was executed on April 25, 2017. This building was considered to be a qualifying asset according to the definition of IAS 23, in that it necessarily takes a substantial period of time to get ready for its intended use. Therefore, as described in Note 2.27., the Bank has capitalized Ps. 1,758,039 thousand and Ps. 305,271 thousand as of September 28, 2018 and December 31, 2017, respectively. The referred amounts correspond to financial costs subject to capitalization applicable to series XXIX tranche II negotiable obligation (see Note 15).
On September 28, 2018, the Bank's Board of Directors decided to discontinue the investment in the construction plan of the new corporate headquarters, changing the originally intended purpose of the building known as "Edificio del Plata". As a result of the Board of Directors’ decision, we started to monitor compliance with the requirements set out in IAS 40 for the reclassification of the building as “Investment property.” Therefore, the Bank retained an independent appraiser to make an appraisal of the building, resulting in a fair value of Ps. 2,881,092 thousand. Hence, as of December 31, 2018, we recognized an impairment loss in the amount of Ps. 291,029 thousand in the Statement of Income under “Depreciation and impairment of assets. During December 2018, the works in the property were discontinued and

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communication of change of use to third parties was concluded. As result, the property was reclassified to "Investment property".

**Additional information**

| | Real estate | Furniture and fixtures | Machinery and equipment | Vehicles | Miscellaneous | Works in progress |
|---|---|---|---|---|---|---|
| Depreciation method | Straight-line basis | Straight-line basis | Straight-line basis | Straight-line basis | Straight-line basis | - |
| Useful life (in years) | Up to 50 | 10 | Machinery: 5 Equipment: 3 | 5 | 5 | - |

## 13. INTANGIBLE ASSETS

Changes in intangible assets are included in Schedule G accompanying these financial statements. The accounting allocation of amortization and depreciation for the year is reported in note 2.

**Additional information**

| | Licenses | Other intangible assets |
|---|---|---|
| Definite useful life (in years) | 5 | 5 |
| Amortization method | Straight-line basis | Straight-line basis |

## 14. INCOME TAX

The table below shows a breakdown of "Current Income Tax Assets":

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Minimum notional income tax credit | 277,398 | 181,181 | 110,053 |
| Income tax prepayments | 167,678 | 21,828 | 4,139 |
| **Total current income tax assets** | **445,076** | **203,009** | **114,192** |

The table below shows a breakdown of the income tax expense:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| Income tax charged to the statement of income | 754,281 | 518,249 |
| Income tax charged to the statement of other comprehensive income | - | - |
| **Total income tax expense** | **754,281** | **518,249** |

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The table below shows a reconciliation of the income tax liability charged to income as of December 31, 2018 and 2017 and the income tax liability resulting from applying the effective tax rate to taxable income:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| **Income for the period before income tax** | **2,812,376** | **1,646,128** |
| Effective tax rate (*) | 30% | 35% |
| **Income for the period at the tax rate** | **843,713** | **576,145** |
| Permanent differences at the tax rate | (89,432) | (57,896) |
| **Total income tax expense for the year** | **754,281** | **518,249** |

**Tax Reform:**
On December 29, 2017, the National Executive Branch enacted Income Tax Law No. 27430. This law has introduced several changes to the previous income tax treatment. Some of the key changes involved in the reform include:

Income tax rate: The income tax rate for Argentine companies shall be gradually reduced from 35% to 30% for fiscal years commencing on January 1, 2018 until December 31, 2019, and to 25% for fiscal years commencing on, and including, January 1, 2020.

Tax on dividends: The law has introduced a tax on dividends or profits distributed by Argentine companies or permanent establishments, among others, to: individuals, undivided estates or foreign beneficiaries, subject to the following considerations: (i) dividends distributed out of the profits made during fiscal years commencing on January 1, 2018 until December 31, 2019 shall be subject to withholding at a 7% rate; and (ii) dividends distributed out of the profits made during fiscal years commencing on January 1, 2020 onwards shall be subject to withholding at a 13% rate.

Dividends distributed from profits earned until the fiscal year before that commenced on January 1, 2018 shall remain subject, in respect of all beneficiaries, to withholding at the 35% rate on the amount in excess of tax-free distributable accumulated profits (equalization tax transition period).

Adjusted deductions: Acquisitions or investments made in fiscal years commencing on January 1, 2018 will be adjusted on the basis of percentage changes in the Wholesale Domestic Price Index (IPIM) reported by the INDEC, which would result in an increase in the deductible depreciation and amortization expense and the tax basis in the event of a sale.

**Deferred tax assets and liabilities**

The table below shows the changes in deferred tax assets and liabilities:

| | Balance as of 12/31/2017 | Balance charged to income / (loss) | Balance as of 12/31/2018 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Allowance for loan losses | 65,119 | 118,528 | 183,647 |
| Bank premises and | (441,353) | (338,169) | (779,522) |

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| | | | |
|---|---|---|---|
| equipment | | | |
| Foreign-currency valuation | (3,320) | (13,728) | (17,048) |
| Provisions | 224,692 | (90,913) | 133,779 |
| Other | 5,802 | (2,543) | 3,259 |
| Valuation of securities and shares | (37,399) | 101,832 | 64,433 |
| Financial trusts | 101,324 | 111,510 | 212,834 |
| Tax losses | 96,300 | 149,657 | 245,957 |
| **Total deferred tax assets / (liabilities), net** | **11,165** | **36,174** | **47,339** |

As per the analysis performed by the Group, the assets detailed above meet the conditions to be considered recoverable and, accordingly, qualify for recognition.

## 15. NEGOTIABLE OBLIGATIONS ISSUED

### Unsubordinated negotiable obligations

The table below shows the Group's issues of simple, non-convertible negotiable obligations:

| | **Issue amount** | **Issue date** | **Maturity date** | **Annual interest rate** | **Carrying amount** | | |
|---|---|---|---|---|---|---|---|
| | | | | | **12/31/18** | **12/31/17** | **01/01/17** |
| | (In thousands) | | | | (In thousands of Ps.) | | |
| **Banco Hipotecario (1)** | | | | | | | |
| XII | US$ 39,508 | 08/14/13 | 08/14/17 | 3.95% | - | - | 469,436 |
| XXIX tranche I | US$ 200,000 | 11/30/15 | 11/30/20 | 9.75% | 12,780,205 | 6,682,142 | 5,654,936 |
| XXIX tranche II | US$ 150,000 | 05/23/16 | 11/30/20 | 8.00% | | | |
| XXX | $ 314,611 | 09/04/15 | 03/04/17 | 9 months 28.25% and 9 months Badlar + 4.50% | - | - | 320,052 |
| XXXI | US$ 14,730 | 09/04/15 | 09/04/18 | 2.00% | - | 276,959 | 233,019 |
| XXXII | $ 265,770 | 11/30/15 | 05/30/17 | 3 months 27% and 15 months Badlar + 4.75% | - | - | 265,523 |
| XXXIV | $ 264,030 | 02/10/16 | 08/18/17 | Badlar +4.00% | - | - | 272,097 |
| XXXV | $ 235,970 | 02/10/16 | 02/10/19 | Badlar +4.99% | 236,740 | 239,330 | 243,258 |
| XXXVI | $ 469,750 | 05/18/16 | 11/18/17 | Badlar +4.25% | - | - | 480,692 |
| XXXVIII | $ 145,200 | 08/18/16 | 02/18/18 | Badlar +4.00% | - | 149,715 | 148,110 |
| XXXIX | $ 343,241 | 08/18/16 | 08/18/19 | Badlar+ 3.49% | 278,378 | 352,446 | 349,879 |
| XL | $ 6,078,320 | 10/12/16 | 01/11/20 | Badlar +2.50% | 4,456,505 | 5,942,336 | 5,934,938 |
| XLI | $ 354,162 | 02/20/17 | 08/20/18 | Badlar +2.89% | - | 338,775 | - |
| XLII | $ 645,638 | 02/20/17 | 02/20/20 | Badlar +3.20% | 653,818 | 651,091 | - |
| XLIII | UVA 54,606 | 05/08/17 | 05/08/20 | 2.75% | 1,638,423 | 1,138,282 | - |
| XLIV | $ 256,644 | 05/08/17 | 05/08/18 | Badlar +2.75% | - | 265,327 | - |
| XLV | $ 102,436 | 05/08/17 | 05/08/20 | Badlar +2.98% | 61,288 | 105,810 | - |
| XLVI | $ 496,855 | 08/09/17 | 02/09/19 | Badlar +4.25% | 444,099 | 513,888 | - |
| XLVII | U$S 125,263 | 08/09/17 | 08/09/19 | 4.00% | 236,447 | 135,866 | - |
| XLVIII | $ 6,300,000 | 11/0717 | 11/0722 | Badlar +4.00% | 6,426,759 | 6,487,555 | - |
| XLIX | $ 596,373 | 02/14/18 | 02/14/20 | Badlar +3.60% | 551,926 | - | - |
| L | UVA 23,239 | 02/14/18 | 02/14/22 | 4.90% | 660,263 | - | - |

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| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **BACS (2)** | | | | | | | |
| V | $ 150,000 | 04/17/15 | 01/17/17 | Badlar + 4.50% | - | - | 52,606 |
| | $ 141,666 | 07/23/15 | 04/24/17 | 9 months 27.50% and then Badlar + 4.50% | - | - | 98,832 |
| VII | $ 142,602 | 02/18/16 | 11/18/17 | Badlar +4.75% | - | - | 146,512 |
| VIII | $ 150,000 | 05/24/16 | 11/24/17 | Badlar +4.39% | - | - | 153,168 |
| IX | $ 249,500 | 07/27/16 | 07/2718 | Badlar + 3.45% | - | 260,964 | 259,253 |
| X | $ 81,000 | 11/10/16 | 05/10/18 | Badlar + 3.75% | - | 94,314 | 93,602 |
| XI | $ 201,000 | 11/10/16 | 11/1019 | Badlar + 4.00% | 139,541 | 207,924 | 206,769 |

| | Issue amount | Issue date | Maturity date | Annual interest rate | Carrying amount 12/31/18 | 12/31/17 | 01/01/17 |
|---|---|---|---|---|---|---|---|
| | (In thousands) | | | | (In thousands of Ps.) | | |
| XII | $ 98,461 | 04/28/17 | 10/28/18 | Badlar + 3.00% | - | 102,660 | - |
| XIII | $ 201,539 | 04/28/17 | 04/28/20 | Badlar + 3.50% | 176,274 | 210,057 | - |
| XIV | $ 227,886 | 09/25/17 | 03/25/19 | Badlar + 4.75% | 68,393 | 227,842 | - |
| XV | US$ 10,141 | 09/25/17 | 09/25/19 | 4.40% | 383,391 | 189,670 | - |
| XVI | $ 500,000 | 02/08/18 | 08/08/19 | Badlar + 3.68% | 496,981 | - | - |
| Series I | $ 500,000 | 11/15/18 | 11/15/19 | Badlar + 9.22% | 533,855 | - | - |
| **Tarshop (3)** | | | | | | | |
| XIX | $ 6,316 | 11/26/14 | 11/26/17 | Badlar + 5.25% | - | - | 6,449 |
| XXII | $ 126,667 | 07/30/15 | 01/30/17 | 6 months 29.00% and then Badlar+5.00% | - | - | 132,166 |
| XXIII | $ 160,000 | 11/16/15 | 05/16/17 | Badlar + 6.00% | - | - | 164,734 |
| XXVI | $ 156,972 | 01/26/16 | 07/26/17 | Badlar + 6.50% | - | - | 164,142 |
| XXVII | $ 147,288 | 05/04/16 | 11/04/17 | Badlar + 6.00% | - | - | 152,568 |
| I | $ 204,033 | 09/07/16 | 03/0718 | Badlar + 4.48% | - | 207,474 | 205,584 |
| II | $ 67,360 | 09/07/16 | 03/07/19 | Badlar + 4.99% | 69,713 | 68,259 | 67,934 |
| IV | $ 213,031 | 11/04/16 | 05/04/18 | Badlar + 4.00% | - | 221,685 | 220,994 |
| V | $ 77,818 | 11/04/16 | 05/04/19 | Badlar + 4.25% | 84,115 | 79,601 | 78,473 |
| VII | $ 229,000 | 01/24/17 | 07/24/18 | Badlar + 4.00% | - | 239,263 | - |
| VIII | $ 53,237 | 01/24/17 | 07/24/19 | Badlar + 4.69% | 53,106 | 55,530 | - |
| IX | $ 288,444 | 04/20/17 | 10/20/18 | Badlar + 4.00% | - | 301,429 | - |
| X | $ 211,556 | 04/20/17 | 10/20/19 | Badlar + 4.74% | 233,839 | 220,860 | - |
| XI | $ 346,996 | 07/12/17 | 01/12/19 | Badlar + 5.00% | 372,399 | 365,010 | - |
| XIII | $ 250,000 | 11/10/17 | 05/10/19 | Badlar + 6.50% | 269,252 | 257,756 | - |
| XV | $ 354,911 | 03/28/18 | 09/28/19 | Badlar + 4.75% | 354,757 | - | - |
| | | | | | **31,660,467** | **26,589,820** | **16,575,726** |

(1) The Bank uses the net proceeds of the placement of Negotiable Obligations for any of the purposes as set forth in Section 36 of the Negotiable Obligations Law, BCRA Communication “A” 3046, as amended and supplemented, and other applicable regulations.

The Ordinary General Shareholders’ Meeting held on May 23, 2008 approved the creation of a new Global Program for the issuance of negotiable obligations, not convertible into shares, secured or unsecured, for up to two billion US dollars (US$2,000,000,000) or an equal amount in Pesos, which was subsequently amended, extended and increased in several opportunities by subsequent Ordinary General Shareholders’ Meetings and Board Resolutions. The current amount authorized to be issued under the Global Note Program is up to US$ 1,500,000,000 (or its equivalent in Pesos).

The Program's Public Offering was authorized by Resolution No. 16,573 dated May 24, 2011, the increase of the Program amount was authorized by Resolution No. 17,805 dated September 9, 2015, the extension of the Program and the increase of its amount were authorized by Resolution No. 18,145 dated July 28, 2016 and a new increase of its amount was authorized by Resolution No. 18,493 dated February 2, 2017, all of them issued by the CNV.

(2) On March 26, 2012, BACS' Ordinary General Shareholders' Meeting approved the creation of a Global Program for the issuance of simple negotiable obligations, non-convertible into shares, secured or unsecured, or secured by third parties, subordinated or unsubordinated, for an aggregate principal amount of up to US$ 150,000,000 and the subsequent admission to the public offering of negotiable obligations. On January 23, 2014, the CNV authorized the public offering of BACS Banco de Crédito y Securitización S.A.'s negotiable obligations, by way of Resolution No. 17,271. On April 13, 2016, the General Shareholders' Meeting approved the extension of the Global Note Program from an aggregate principal amount of US$ 150,000,000 to US$ 300,000,000.

(3) The Program was approved by Tarshop's Shareholders' Meeting held on April 11, 2016 for an aggregate amount of up to US$ 400,000,000, amount which was then reduced by resolution of the Company's Board of Directors dated April 11, 2016 to US$ 200,000,000 (or its equivalent in other currencies). Due to the issuance of Series XV Negotiable Obligations, Tarshop has received as payment in kind, Series IV Negotiable Obligations for a principal amount of $ 51,500, Series VII Negotiable Obligations for a principal amount of $ 15,000 and Series IX Negotiable Obligations for a principal amount of $ 90,500.

**Subordinated negotiable obligations**

At the Extraordinary General Shareholders' Meeting of BACS dated December 12, 2013, the issuance of Convertible Subordinated Negotiable Obligations through private offering was approved for an amount of up to Ps. 100,000 thousand. On June 22, 2015, BACS issued negotiable obligations that are convertible into the Company's common and book-entry shares for a principal amount of Ps. 100,000 thousand.

The private offering of the convertible negotiable obligations was solely addressed to the Company's shareholders. IRSA Inversiones y Representaciones S.A. ("IRSA") subscribed all the convertible negotiable obligations. On June 21, 2016, the Bank was notified by IRSA about the decision to exercise its conversion rights over such securities and the filings made before the Argentine Central Bank and the CNV.

On February 10, 2017, BACS took notice of BCRA's Resolution No. 63, dated February 7, 2017, granting its unqualified authorization for the conversion of the Negotiable Obligations Convertible into Common Shares in favor of IRSA, representing 26.989% of its stock capital. BACS' board meeting held on February 21, 2017 resolved BACS' capital increase for Ps. 87,813 thousand and the issuance of 25,313,251 book-entry common shares with a face value of ($1) and one voting right each in favor of IRSA.

## 16. OTHER FINANCIAL LIABILITIES

The table below shows the balances of other financial liabilities as of the indicated dates:

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Liabilities related to the transfer of financial assets not derecognized (See Note 10) | 489,082 | 887,218 | 794,669 |
| Financial trusts debt securities | 1,986,930 | 1,327,746 | 1,426,406 |
| redit cards consumptions payable | 2,774,760 | 2,488,493 | 1,810,155 |
| ayables from transactions pending settlement | 1,545,929 | 700,095 | 536,966 |

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| | | | |
|---|---|---|---|
| thers | 751,075 | 405,558 | 85,369 |
| **otal other financial liabilities** | **7,547,776** | **5,809,110** | **4,653,565** |

## 17. OTHER NON-FINANCIAL LIABILITIES

The table below shows the balances of other non-financial liabilities as of the indicated dates:

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Salaries and social security charges | 885,012 | 746,347 | 453,266 |
| Employee benefits payable (a) | 229,257 | 286,386 | 129,297 |
| Directors' and supervisory committee's members' fees | 225,596 | 110,684 | 55,271 |
| Tax withholdings to be deposited | 261,546 | 229,261 | 212,156 |
| Other taxes payable | 802,906 | 416,365 | 348,596 |
| Customers' loyalty programs | 61,181 | 57,495 | 58,125 |
| Miscellaneous payables | 1,122,023 | 1,082,745 | 933,071 |
| Others | 15,479 | 9,157 | 10,317 |
| **Total other non-financial liabilities** | **3,603,000** | **2,938,440** | **2,200,099** |

(a) The Board of Directors of BACS, in its meetings held on December 13, 2012 and July 29, 2013 (with the Corporate Governance Committee's previous consent and following the Risk Committee's review), established a long-term incentive plan for certain executive officers (other than directors). Under such plan, participants will be entitled to receive a payment as part of their variable compensation, tied to the increase in the Bank's capital. The plan is effective for five years, commencing in January 2013.

On August 14, 2013, the Long-term Incentive Plan was endorsed. On August 7, 2014, the Board of Directors of BACS, passed the "Policy for Setting up Provisions for the Long-term Incentive Plan", outlining the "criteria to calculate the provision", the "provision calculation method", "accrual," and "some additional considerations", including the frequency for the calculation review.
Every year, BACS' Board of Directors fixes the incremental amount of the provision accrued in the course of the year, on a monthly basis. The provision is calculated on the basis of the assumption of the concurrent "resignation" of four beneficiaries, as discussed in the Long-term Incentive Plan. The calculation is based on the percentage of beneficiaries resulting from adding each beneficiary's percentage - which totals 16.2% - as per the calculation formulas and explanations outlined in the Long-term Incentive Plan.
The Plan will remain in place throughout its effective term, that is, 5 calendar years from the commencement date (January 1, 2013), or until the occurrence of the earlier of an Event of Liquidity, or a Special Assumption.

Banco Hipotecario, S.A., in its capacity as controlling entity, through a notice dated October 4, 2017, required that BACS' Board of Directors renegotiate the agreement related to the Senior Management Long-term Incentive Plan Policy. Pursuant to such notice, on October 19, 2017, BACS notified the Argentine Central Bank that it would proceed accordingly.

On January 19, 2018, by way of minutes of the Board of Directors' meeting No. 322, a payment arrangement in connection with the Long-term Incentive Plan was agreed upon with the "Beneficiaries", split into three equal payments. The first payment was due within two business days from the subscription date of the arrangement, the second payment is due on January 31, 2019 and the third payment is due on January 31, 2020, plus interest on the third payment only at 50% of the BADLAR rate commencing on the subscription date of the payment arrangement. On January 22, 2018, the Bank disbursed the first payment under this arrangement in an aggregate amount of Ps. 89,629 thousand.

On January 23, 2018, BACS called for an ordinary and extraordinary shareholders' meeting to discuss an increase in capital stock through the issuance of a number of shares representing no less than 30% of, and up to fivefold, the Bank's current capital, and to determine the additional paid-in capital of such shares, with the definition of all other conditions for the issuance to be delegated upon the Board of Directors. Furthermore, as per the negotiations with the "Beneficiaries" of the Long-term Incentive Plan, at this stage, the shareholders' meeting shall consider whether to grant beneficiaries a right to subscribe the shares associated to the capital increase that will be discussed at the shareholders' meeting, under the same conditions as those offered to the current shareholders, in respect of shares representing 16.2% of the BACS' capital stock and voting rights following the increase. To such end, BACS' current shareholders should waive their preemptive subscription rights (Section 197 of the Argentine Corporations Law) in respect of the portion that will be exercised by the plan "beneficiaries." Once the capital increase has been approved and the additional paid-in capital has been determined at the shareholders' meeting, the right will become exercisable at such time as the Board of Directors determine the other conditions for the issue and subscription.

An Ordinary and Extraordinary Shareholders' Meeting was scheduled to be held on February 15, 2018 to discuss the capital stock increase, which was declared void as the required quorum was not present.

On February 7 and March 23, 2018, BACS received two new notices from the Argentine Central Bank and replied to them in due time and form. In its answers, BACS asserted and endorsed its commitment to review any future new long-term incentive policy, agreement or plan for its executives which might be under consideration, in compliance with the Argentine Central Bank's Guidelines on Financial Institutions' Corporate Governance.

As of December 31, 2018 and December 31, 2017, this item was reflected under "Other non-financial liabilities" in the amount of Ps. 179,257 thousand and Ps. 268,886 thousand, respectively. In turn, as of December 31, 2018, the same item includes Ps. 15,479 thousand as adjustment to the third and last payment.

## 18. COMMITMENTS AND CONTINGENCIES

**Commitments**

During the year ended December 31, 2018, the Group has not undertaken any capital commitment.

**Contingencies**

The Group's main contingencies are described in Note 31.6.

**Provisions**

It includes the estimated amounts to pay probable liabilities which, in case of occurrence, would generate a loss for the Group.

The Group recognizes the following provisions:

- For labor, civil and commercial lawsuits: These provisions are calculated on the basis of attorneys' reports about the status of the proceedings and the estimate about the potential losses the Group may sustain, as well as on the basis of past experience in proceedings of these kinds.
- For miscellaneous risks: These provisions are set up to address contingencies that may trigger obligations for the Group. In estimating the provision amounts, the Group evaluates the likelihood of realization taking into consideration the opinion of its legal and professional advisors. These include

potential claims from tax authorities for various taxes, potential administrative penalties from supervisory entities, among others.

- Estimates related to pre-retirement plans for employees and related medical expenses are included as a provision for post-employment benefits.
- Note 32.6 includes, at the request of the BCRA, all administrative, disciplinary and criminal penalties with a lower court judgment or not, applied or initiated by the BCRA and the Financial Reporting Unit, regardless of whether they are probable, likely to occur or remote.

Based on the Management's estimate, it is probable that less than 50% of the amounts of provisions as of December 31, 2018 will have to be paid during the following 12 months.

The balances of provisions are due to:

| | **12/31/2018** | **12/31/2017** | **01/01/2017** |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Taxes | 48,284 | 44,496 | 11,313 |
| Lawsuits | 152,466 | 179,499 | 205,514 |
| Administrative, disciplinary and criminal sanctions | 640 | 600 | 600 |
| Post-retirement benefit plans | 52,052 | 45,029 | 30,782 |
| Other | 53,434 | 128,009 | 28,378 |
| **Total Provisions** | **306,876** | **397,633** | **276,587** |

## 19. CAPITAL STRUCTURE

The capital stock is fully subscribed, paid-in and registered and is broken down as follows:

| | Outstanding shares | Treasury shares | Total shares |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| **Balance as of 01/01/2017** | **1,463,365** | **36,635** | **1,500,000** |
| **Balance as of 12/31/2017** | **1,463,365** | **36,635** | **1,500,000** |
| Delivery of shares in connection with the stock-based compensation plan (a) | 2,296 | (2,296) | - |
| **Balance as of 12/31/2018** | **1,465,661** | **34,339** | **1,500,000** |

(a) During the fiscal year ended December 31, 2018, 2,296 shares were delivered under the stock-based compensation plan described in Note 1. Changes in the associated reserve were as follows:

| | Reserve for stock-based payments |
|---|---|
| | (In thousands of Ps.) |
| **Balance as of 01/01/2017** | **-** |
| Set up of reserve for stock-based compensation plan | 439,617 |
| **Balance as of 12/31/2017** | **439,617** |
| Shares delivered | (27,547) |
| **Balance as of 12/31/2018** | **412,070** |

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## 20. NON-CONTROLLING INTEREST

Below is a detail of changes in the Group's significant non-controlling interests as of December 31, 2018 and December 31, 2017:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| **Balance at the beginning** | **287,921** | **163,892** |
| Share of profit for the year | 6,683 | (2,611) |
| Increases (see note 15) | - | 127,990 |
| Cash dividends | (2,220) | (1,350) |
| **Balance at year-end** | **292,384** | **287,921** |

## 21. INTEREST AND ADJUSTMENTS INCOME / FEE AND COMMISSION INCOME

| Interest and adjustments income | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| Interest on cash and bank deposits | 16,244 | 412 |
| Interest on loans to the financial sector | 133,436 | 105,052 |
| Interest on overdraft facilities | 308,177 | 155,007 |
| Interest on promissory notes | 171,095 | 186,510 |
| Interest on mortgage loans | 571,310 | 597,528 |
| Interest on consumer loans | 3,291,680 | 2,324,732 |
| Interest on pledge loans | 88,659 | 112,981 |
| Interest on credit card loans | 7,064,667 | 5,041,217 |
| Interest on financial leases | 38,555 | 38,336 |
| Interest on other loans | 1,722,671 | 953,549 |
| Interest on government and corporate securities | 516,421 | 242,434 |
| Income from CER, CVS, UVA and UVI adjustments | 845,854 | 118,908 |
| Other | 128,459 | 374,033 |
| **Total** | **14,897,228** | **10,250,699** |

| Fee and commission income | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| Linked to lending transactions | 101,780 | 251,760 |
| Linked to borrowing transactions | 4,021,308 | 3,315,458 |
| Other commissions | 29,532 | 32,215 |
| **Total** | **4,152,620** | **3,599,433** |

## 22. INTEREST AND ADJUSTMENTS EXPENSE

| Interest and adjustments expense | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| Interest on checking accounts deposits | (1,015,635) | (122,156) |
| Interest on savings account deposits | (9,050) | (4,953) |
| Interest on time deposits | (3,444,615) | (2,179,791) |

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| | | |
|---|---|---|
| Interest on interfinancial loans received | (234,195) | (161,406) |
| Interest on other liabilities resulting from financial transactions | (6,882,777) | (3,528,805) |
| Expense for CER, CVS, UVA and UVI adjustments | (1,029,866) | (179,857) |
| Other | (116,846) | (75,479) |
| **Total** | **(12,732,984)** | **(6,252,447)** |

### 23. GOLD AND FOREIGN CURRENCY QUOTATION DIFFERENCES, NET

| **Originated in:** | **12/31/2018** | **12/31/2017** |
|---|---|---|
| | (In thousands of Ps.) | |
| US-dollar denominated assets | 11,162,425 | 1,743,388 |
| US-dollar denominated liabilities | (11,203,410) | (1,726,216) |
| Derivative instruments | (721,602) | (130,267) |
| Net assets denominated in euro | 51,735 | 16,998 |
| **Net quotation differences** | **(710,852)** | **(96,097)** |

### 24. OTHER OPERATING INCOME / (EXPENSES)

| **Other operating income** | **12/31/2018** | **12/31/2017** |
|---|---|---|
| | (In thousands of Ps.) | |
| Loan servicing | 2,922,972 | 2,733,124 |
| Borrowing transactions commissions | 91,658 | 62,347 |
| Debit card commissions | 46,323 | 42,096 |
| Income from services PRO.CRE.AR | 353,985 | 345,189 |
| Penalty interest | 182,634 | 116,642 |
| Loans recovered | 174,021 | 168,544 |
| Reversal of allowances | 168,122 | 34,778 |
| Rentals | 15,709 | 12,023 |
| Measurement of investment property at fair value | 189,941 | 20,030 |
| Income from sale of non-financial assets | 1,926 | 59,436 |
| Other income | 203,443 | 114,733 |
| **Total** | **4,350,734** | **3,708,942** |

| **Other operating expenses** | **12/31/2018** | **12/31/2017** |
|---|---|---|
| | (In thousands of Ps.) | |
| Turnover tax | (1,604,539) | (1,155,722) |
| Other taxes | (173,753) | (151,497) |
| Loan servicing | (1,055,972) | (1,226,390) |
| Contribution to the deposit insurance fund | (44,257) | (33,950) |
| Charges for other provisions | (95,137) | (215,909) |
| Debit card rebates | (60,330) | (46,664) |
| Credit card rebates | (20,359) | (33,303) |
| Donations | (50,322) | (34,037) |
| Other expenses | (160,765) | (110,399) |
| **Total** | **(3,265,434)** | **(3,007,871)** |

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## 25. EXPENSES BY FUNCTION AND NATURE

The Group presented its statement of comprehensive income under the expenditure function method. Under this method, expenses are classified according to their function as part of the item "Administrative expenses."

The table below provides the required additional information about expenses by nature:

| Administrative expenses | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| Fees and compensation for services | (1,133,765) | (924,593) |
| Directors' fees | (201,240) | (149,721) |
| Advertising, promotion and research expenses | (139,435) | (123,809) |
| Taxes and duties | (416,284) | (377,463) |
| Maintenance and repairs | (225,118) | (221,758) |
| Electricity, gas and telephone services | (275,841) | (220,620) |
| Insurance | (24,056) | (22,913) |
| Entertainment and transportation expenses | (51,170) | (56,951) |
| Office supplies | (19,959) | (6,041) |
| Rentals | (239,934) | (189,194) |
| Miscellaneous | (323,819) | (318,664) |
| **Total** | **(3,050,621)** | **(2,611,727)** |

## 26. EMPLOYEE BENEFITS

The table below shows a breakdown of items disclosed under Employee Benefits:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| Salaries and social security charges | (2,905,141) | (2,391,614) |
| Severance payments and bonuses | (750,051) | (1,323,921) |
| Personnel expenses | (145,171) | (122,476) |
| **Total** | **(3,800,363)** | **(3,838,011)** |

## 27. EARNINGS PER SHARE

Earnings per share are calculated by dividing income attributable to the Group's shareholders by the weighted average of outstanding common shares during the fiscal year. As the Group does not have preferred shares or debt convertible into shares, basic earnings are equal to diluted earnings per share.

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| Income attributable to the group's shareholders | 2,051,412 | 1,130,490 |
| Weighted-average of common shares outstanding (thousand) | 1,464,670 | 1,463,365 |
| **Earnings per share** | **1.401** | **0.773** |

## 28. SEGMENT REPORTING

The Group determines operating segments based on management reports that are reviewed by the Board of Directors and key management personnel and updated as they show changes.

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The Group considers its business is comprised by its product and service offering; thus, it identifies operating segments as follows:

(a) Finance – Corresponds to the placement of the Group’s liquidity according to the other segments’ and its own needs and opportunities.

(b) Wholesale Banking – This segment encompasses corporate and financial advice, as well as asset management and loans to large customers. This segment also includes the operations of our subsidiaries BACS and BH Valores.

(c) Retail Banking – It includes loans granted and other credit products, such as deposit taking from individuals. It also includes the operations of our subsidiaries Tarshop and BHN Inversión.

The column “Adjustments” includes consolidation adjustments corresponding to transactions among Group members not including third parties and the non-controlling interest.

The results of operations of the Group's several operating segments are monitored separately in order to make decisions on resource allocation and the evaluation of each segment's performance. The performance of each operating segment is reviewed on the basis of operating income or loss and is measured consistently with the operating income and loss reported in the consolidated statement of income.

When any transaction occurs, the transfer pricing among operating segments is at arm's length similarly to transactions carried out with third parties. Income, expenses and income (losses) resulting from transfers among operating segments are then eliminated from consolidation.

The relevant segment reporting as of the indicated dates is as follows:

| December 31, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Retail banking | | Wholesale banking | | | | |
| | Finance | Retail Banking | Insurance | BHSA | BACS | Other | Adjustments | Consolidated |
| Total assets.......................... | 24,915,139 | 41,721,167 | 2,678,102 | 15,146,179 | 3,633,882 | 4,916,152 | (8,449,056) | **84,561,565** |
| Total liabilities......................... | (21,581,671) | (36,149,560) | (1,129,220) | (13,394,838) | (3,103,623) | (4,741,419) | 5,629,950 | **(74,470,381)** |

| December 31, 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Retail banking | | Wholesale banking | | | | |
| | Finance | Retail Banking | Insurance | BHSA | BACS | Other | Adjustments | Consolidated |
| Total assets.......................... | 19,215,013 | 32,381,187 | 1,732,641 | 12,313,559 | 2,417,994 | 3,077,916 | (4,573,057) | **66,565,253** |
| Total liabilities......................... | (17,075,008) | (27,471,595) | (669,962) | (10,951,917) | (1,990,883) | (2,782,088) | 2,611,286 | **(58,330,167)** |

| January 1, 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Retail banking | | Wholesale banking | | | | |
| | Finance | Retail Banking | Insurance | BHSA | BACS | Other | Adjustments | Consolidated |
| Total assets.......................... | 9,225,273 | 30,598,463 | 1,398,941 | 10,551,448 | 1,750,824 | 1,930,285 | (4,432,757) | **51,022,477** |
| Total liabilities......................... | (7,524,843) | (27,119,480) | (555,628) | (9,028,534) | (1,406,127) | (1,552,422) | 2,728,277 | **(44,458,757)** |

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| | December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Retail banking | | Wholesale banking | | | | |
| | Finance | Retail Banking | Insurance | BHSA | BACS | Other | Adjustments | Consolidated |
| Net interest income | (2,374,407) | 3,257,685 | 160,719 | 1,350,665 | 74,851 | (329,566) | 24,297 | 2,164,244 |
| Net commission income | (60,233) | 4,026,787 | (387,305) | 52,575 | (29,982) | 113,170 | (247,247) | 3,467,765 |
| Net income from measurement of financial instruments at fair value through profit or loss | 4,930,233 | 71,427 | 589,218 | - | 343,639 | - | (4,541) | 5,929,976 |
| Gold and foreign currency quotation difference | (800,358) | (850) | 76,923 | - | 13,433 | - | - | (710,852) |
| Other operating income | 22,469 | 879,184 | 2,528,141 | 69,042 | 180,326 | 672,604 | (1,032) | 4,350,734 |
| Loan loss provision | - | (1,557,884) | (4,825) | (253,788) | (12,376) | - | - | (1,828,873) |
| **Total net operating income** | **1,717,704** | **6,676,349** | **2,962,871** | **1,218,494** | **569,891** | **456,208** | **(228,523)** | **13,372,994** |
| Operating and administrative expenses | (657,220) | (6,845,180) | (1,058,639) | (1,059,983) | (412,050) | (797,517) | 269,971 | (10,560,618) |
| Income from associates and joint ventures | (598) | 139,830 | (10) | 1 | - | (146,718) | 7,495 | - |
| Income tax from continuing activities | (134,410) | 74,759 | (618,034) | (24,114) | (52,482) | - | - | (754,281) |
| **Net income** | **925,476** | **45,758** | **1,286,188** | **134,398** | **105,359** | **(488,027)** | **48,943** | **2,058,095** |

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| | December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Retail banking | | Wholesale banking | | | | |
| | Finance | Retail Banking | Insurance | BHSA | BACS | Other | Adjustments | Consolidated |
| Net interest income | (785,276) | 4,018,966 | 56,871 | 540,469 | 203,425 | (56,391) | 20,188 | 3,998,252 |
| Net commission income | (97,862) | 3,246,284 | (329,322) | 101,940 | (5,820) | 85,403 | (696) | 2,999,927 |
| Net income from measurement of financial instruments at fair value through profit or loss | 1,403,070 | 26,339 | 336,137 | - | 49,458 | - | (14,740) | 1,800,264 |
| Gold and foreign currency quotation difference | (137,994) | 189 | 12,908 | - | 28,800 | - | - | (96,097) |
| Other operating income | 11,633 | 844,969 | 2,191,754 | 43,733 | 225,690 | 478,108 | (86,945) | 3,708,942 |
| Loan loss provision | - | (1,052,051) | - | (99,359) | (11,173) | - | - | (1,162,583) |
| **Total net operating income** | **393,571** | **7,084,696** | **2,268,348** | **586,783** | **490,380** | **507,120** | **(82,193)** | **11,248,705** |
| Operating and administrative expenses | (352,852) | (6,769,549) | (786,014) | (631,015) | (511,905) | (581,414) | 30,172 | (9,602,577) |
| Income from associates and joint ventures | (4,345) | 60,923 | (6) | - | - | 1,021 | (57,593) | - |
| Income tax from continuing activities | (25,401) | 20,008 | (518,136) | - | 5,280 | - | - | (518,249) |
| **Net income** | **10,973** | **396,078** | **964,192** | **(44,232)** | **(16,245)** | **(73,273)** | **(109,614)** | **1,127,879** |

Information on geographic areas:

The Group's operations are entirely conducted in Argentina.

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## 29. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties are entities that, either directly or indirectly through other entities, control, are under common control with, or have significant influence on, another entity's financial or operating decisions.

The Group controls another entity when it has the power over that entity's financial and operating decisions and also has a share of profits of such entities.

In determining this situation, consideration is given to legal aspects, as well as to the nature and substance of the relationship.

The Bank has carried out transactions with related parties at arm's length.

Principal shareholders

The Bank's principal shareholders are:

| Name | Class of shares | 12/31/2018 | | 12/31/2017 | | 01/01/2017 | |
|---|---|---|---|---|---|---|---|
| | | Votes % | Capital % | Votes % | Capital % | Votes % | Capital % |
| Fondo Federal de Infraestructura Regional Assistance Trust | A | 22.86% | 44.30% | 22.86% | 44.30% | 22.89% | 44.34% |
| Employee Stock Ownership Plan | B | 1.96% | 3.80% | 1.96% | 3.80% | 1.96% | 3.80% |
| Fondo Federal de Infraestructura Regional Assistance Trust | C | 2.58% | 5.00% | 2.58% | 5.00% | 2.58% | 5.00% |
| IRSA Inversiones y Representaciones S. A. (a) | D | 46.30% | 29.91% | 46.31% | 29.91% | 46.32% | 29.91% |
| ANSES | D | 7.64% | 4.94% | 7.64% | 4.94% | 7.63% | 4.93% |
| Treasury Shares | D | 3.54% | 2.30% | 3.78% | 2.44% | 3.78% | 2.44% |
| Shares in The Bank of New York | D | 9.38% | 6.06% | 9.38% | 6.06% | 9.38% | 6.06% |
| Other | D | 5.74% | 3.69% | 5.49% | 3.55% | 5.46% | 3.52% |
| | | **100.00%** | **100.00%** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |

(a) IRSA Inversiones y Representaciones ("IRSA") owns these holdings directly and indirectly through the following subsidiaries: Tyrus S.A., Ritelco S.A., E-Commerce Latina S.A., Palermo Invest S.A., and Inversora Bolívar S.A.

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Controlled entities / Subsidiaries

Below is a detail of the Group's related parties and the nature of the existing relationship with each of them:

| Name | Nature | PERCENTAGE INTEREST | | | | | |
|---|---|---|---|---|---|---|---|
| | | 12/31/2018 | | 12/31/2017 | | 01.01.2017 | |
| | | Direct | Direct and Indirect | Direct | Direct and Indirect | Direct | Direct and Indirect |
| BACS Banco de Crédito y Securitización S.A. | Control | 62.28% | 62.28% | 62.28% | 62.28% | 87.50% | 87.50% |
| BHN Sociedad de Inversión S.A | Control | 99.99% | 100.00% | 99.99% | 100.00% | 99.99% | 100.00% |
| Tarshop S.A. | Control | 80.00% | 80.00% | 80.00% | 80.00% | 80.00% | 80.00% |
| BH Valores S.A. | Control | 95.00% | 100.00% | 95.00% | 100.00% | 95.00% | 100.00% |
| CHA Financial Trusts Series VI to VIII | Control | - | - | - | - | 100.00% | 100.00% |
| CHA Financial Trusts Series VI to XIV | Control | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

**Directors' Fees**

According to Law No. 19,550, the fees payable to the Board of Directors, if not established in an entity's by-laws, should be set by the Shareholders' Meeting. The Bank's by-laws provide that total fees payable to directors will be limited to five per cent (5 %) of after-tax profits for the fiscal year at issue when no cash dividends are distributed for whatsoever reason, and will be increased on a proportional basis to cash dividends, if available, until reaching fifteen per cent (15 %) of taxable income.

Some of the Group's directors were hired under Employment Contract Law No. 20,744. This law sets forth certain employment conditions, including, without limitation, salaries, income protection, working hours, vacations, paid leaves, minimum age requirements, workers' protection, and manners to suspend or terminate employment contracts. The fees payable every year to directors are determined in accordance with Law No. 19,550, taking into account whether directors perform technical-administrative duties and based on the profits made during the year. Once the fees payable to directors are determined, they are submitted to the Shareholders' Meeting for approval.

**Compensation payable to the Key Management Personnel**

The members of our senior management are designated and removed by the Board of Directors and perform their duties following the instructions delivered by the Board.

As compensation for their duties, our Key Management Personnel earn a fixed amount determined by reference to their background, skills and experience, and a variable bonus which is paid on an annual basis and is tied to individual performance and the Group's results of operations.

As of December 31, 2018, the Bank's key personnel is comprised of a general manager and thirteen area managers.

**Corporate Services Contracts**

In the light of the fact that subsidiaries have operating areas that share certain common characteristics, the Bank implemented alternatives to cut certain fixed costs inherent to its business streamlining the individual efficiencies of each of the companies in the several areas comprising operating management.

Costs and rewards of corporate services agreements are allocated on the basis of operating efficiencies and equity, without pursuing individual profits for each of the companies.

Below is a detail of the services areas included in the corporate services agreements:

| **Entity** | **Services area** |
|---|---|
| BACS | Human resources, financial services, IT services, procurement and contracting, accounts payable, overall secretarial, legal advice services and exclusive use by BACS of a space within the Bank's Vault. |
| Tarshop | Procurement and general services; asset maintenance, management and administration; fraud prevention and control in connection with credit cards issued by Tarshop; mail; internal audit; oversight and control of agencies and agents; IT security and SAP system maintenance; and finance services. |
| BHN Vida y BHN Seguros Generales (a) | Human resources; procurement and contracting; maintenance; internal audit; asset management; general services; accounts payable; overall secretarial services; legal advice and supervision; supply, maintenance and administration of communication and IT items; SAP maintenance, and sale of insurance policies through call centers. Furthermore, the companies provided insurance-related services to the Bank, including operating, claim-processing, and system-related services until July 2, 2018. |

(a) Controlled by BHN Sociedad de Inversión.

**Rental of Offices and Space at Shopping Malls**

Tarshop, BACS, BHN Sociedad de Inversión S.A., BHN Seguros Generales S.A. and BHN Vida S.A. lease offices owned by IRSA Propiedades Comerciales S.A. ("IRSA CP"), the main subsidiary of IRSA Inversiones y Representaciones S.A. at several buildings. In addition, Tarshop and BHSA lease certain spaces at shopping malls (stores, booths, storage space, or advertising spots) from IRSA CP.

The agreements provide for terms and conditions and prices similar to those agreed upon with third parties.

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**Legal Services**

The Group retains the legal services of Estudio Zang, Bergel & Viñes. Saúl Zang is a partner to such law firm and is also a member of the Board of the Bank's subsidiaries.

**Trading of Financial Assets**

Idle funds are usually placed in several instruments, including those issued by related companies, which are purchased at the time of issuance or from independent third parties in the secondary market.

**Financial Transactions**

In the ordinary course of business, the Bank enters into certain related party credit facility agreements. The interest rate on these facilities is determined at arm's length.

In addition, BHSA and BACS usually act as placement agents in certain related parties' transactions carried out in the capital market.

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Below is a detail of the most significant balances and transactions with related parties as of December 31, 2018:

| Related Party | Derivative instruments | Other debt securities | Investments in equity instruments | Loans and other financing arrangements | Other financial assets | Other non-financial assets | Deposits | Negotiable obligations issued | Other financial liabilities |
|---|---|---|---|---|---|---|---|---|---|
| | (In thousands of Ps.) | | | | | | | | |
| BACS | - | - | - | 1,264 | 2,769 | - | 96,333 | - | - |
| Tarshop | - | 2,396,018 | - | 619,529 | 1,809 | - | 789,937 | - | - |
| BHN Inversión | - | - | - | - | 42,014 | - | 202,966 | 103,778 | - |
| BH Valores | - | - | - | - | - | - | 912 | - | - |
| Financial Trusts CHA IX to XIV | 1,360,536 | - | **-** | **-** | **-** | **-** | 4,242 | **-** | **-** |
| **Total subsidiaries** | **1,360,536** | **2,396,018** | **-** | **620,793** | **46,592** | **-** | **1,094,390** | **103,778** | **-** |
| IRSA (Includes subsidiaries) | - | 40,313 | 18,685 | - | 3,034 | - | - | - | 1 |
| **Total shareholders** | **-** | **40,313** | **18,685** | **-** | **3,034** | **-** | **-** | **-** | **1** |
| Zang Bergel y Viñes Law Firm | - | - | - | - | - | - | - | - | 1 |
| Directors | - | - | - | - | - | 95,428 | - | - | 225,596 |
| **Total other** | **-** | **-** | **-** | **-** | **-** | **95,428** | **-** | **-** | **225,597** |
| **Total** | **1,360,536** | **2,436,331** | **18,685** | **620,793** | **49,626** | **95,428** | **1,094,390** | **103,778** | **225,598** |

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| Related Party | Interest income | Interest expense | Commission income | Employee benefits | Administrative expenses |
|---|---|---|---|---|---|
| | (In thousands of Ps.) | | | | |
| BACS | 7,264 | - | 1,033 | - | - |
| Tarshop | 833,669 | 7,582 | 5,137 | - | - |
| BHN Inversión | - | 21,902 | 242,110 | - | 21,039 |
| Financial Trusts CHA IX to XIV | - | 24,297 | - | - | - |
| **Total subsidiaries** | **840,933** | **53,781** | **248,280** | **-** | **21,039** |
| IRSA (Includes subsidiaries) | 694 | - | - | - | 33,925 |
| **Total Shareholders** | **694** | **-** | **-** | **-** | **33,925** |
| Zang Bergel y Viñes Law Firm | - | - | - | - | 2,353 |
| Directors | - | - | - | - | 201,240 |
| Key Management Personnel | - | - | - | 390,242 | - |
| **Total other** | **-** | **-** | **-** | **390,242** | **203,593** |
| **Total** | **841,627** | **53,781** | **248,280** | **390,242** | **258,557** |

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Below is a detail of the most significant balances and transactions with related parties as of December 31, 2017:

| Related Party | Derivative instruments | Debt securities at fair value through profit or loss | Other debt securities | Investments in equity instruments | Loans and other financing arrangements | Other financial assets | Deposits | Negotiable obligations issued | Other financial liabilities |
|---|---|---|---|---|---|---|---|---|---|
| | (In thousands of Ps.) | | | | | | | | |
| BACS | - | - | - | - | 16,098 | 1,480 | 156,866 | - | 11,584 |
| Tarshop | - | - | 1,587,350 | - | - | 242 | 32,755 | - | - |
| BHN Inversión | - | - | - | - | - | 36,771 | 6,320 | 53,547 | 36,204 |
| BH Valores | - | - | - | - | - | - | 2,014 | - | - |
| Financial Trusts CHA IX to XIV | 666,436 | - | - | - | - | - | 4,618 | - | - |
| **Total subsidiaries** | **666,436** | **-** | **1,587,350** | **-** | **16,098** | **38,493** | **202,573** | **53,547** | **47,788** |
| IRSA (Includes subsidiaries) | - | 26,816 | - | 17,398 | - | 1,787 | - | - | 320 |
| **Total shareholders** | **-** | **26,816** | **-** | **17,398** | **-** | **1,787** | **-** | **-** | **320** |
| Zang Bergel y Viñes Law Firm | - | - | - | - | - | - | - | - | 1 |
| Directors | - | - | - | - | - | 46,938 | - | - | 110,684 |
| **Total other** | **-** | **-** | **-** | **-** | **-** | **46,938** | **-** | **-** | **110,685** |
| **Total** | **666,436** | **26,816** | **1,587,350** | **17,398** | **16,098** | **87,218** | **202,573** | **53,547** | **158,793** |

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| Related Party | Interest income | Interest expense | Commission income | Employee benefits | Administrative expenses |
|---|---|---|---|---|---|
| | (In thousands of Ps.) | | | | |
| BACS | 73,728 | - | 5,400 | - | - |
| Tarshop | 433,149 | - | - | - | - |
| BHN Inversión | - | 3,900 | 86,945 | - | - |
| Financial Trusts CHA IX to XIV | - | 16,288 | - | - | - |
| **Total subsidiaries** | **506,877** | **20,188** | **92,345** | **-** | **-** |
| IRSA (Includes subsidiaries) | 653 | 4,321 | - | - | 27,125 |
| **Total Shareholders** | **653** | **4,321** | **-** | **-** | **27,125** |
| Zang Bergel y Viñes Law Firm | - | - | - | - | 3,713 |
| Directors | - | - | - | - | 149,721 |
| Key Management Personnel | - | - | - | 191,590 | - |
| **Total other** | **-** | **-** | **-** | **191,590** | **153,434** |
| **Total** | **507,530** | **24,509** | **92,345** | **191,590** | **180,559** |

Below is a detail of the most significant balances and transactions with related parties as of January 1, 2017:

| Related Party | Debt securities at fair value through profit or loss | Other debt securities | Investments in equity instruments | Loans and other financing arrangements | Other financial assets | Deposits | Negotiable obligations issued | Other financial liabilities | Subordinated negotiable obligations |
|---|---|---|---|---|---|---|---|---|---|
| | (In thousands of Ps.) | | | | | | | | |
| BACS | - | - | - | 33,342 | 9,443 | 3,426 | - | 21,590 | - |
| Tarshop | | 1,885,135 | | | 1,898 | 51,628 | | | |
| BHN Inversión | - | - | - | - | 31,317 | 3,887 | 11,987 | 31,048 | - |
| BH Valores | - | - | - | - | - | 15 | - | - | - |
| Financial Trusts CHA VI to XIV | 620,080 | - | - | - | - | 5,321 | - | - | - |
| **Total subsidiaries** | **620,080** | **1,885,135** | **-** | **33,342** | **42,658** | **64,277** | **11,987** | **52,638** | **-** |
| IRSA (Includes subsidiaries) | 29,005 | - | 7,452 | - | 1,779 | - | - | 134 | 136,838 |
| **Total Shareholders** | **29,005** | **-** | **7,452** | **-** | **1,779** | **-** | **-** | **134** | **136,838** |
| Zang Bergel y Viñes Law Firm | - | - | - | - | - | - | - | 1 | - |
| Directors | - | - | - | - | 36,229 | - | - | 55,275 | - |
| **Total other** | **-** | **-** | **-** | **-** | **36,229** | **-** | **-** | **55,276** | **-** |
| **Total** | **649,085** | **1,885,135** | **7,452** | **33,342** | **80,666** | **64,277** | **11,987** | **108,048** | **136,838** |

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## 30. FINANCIAL RISK FACTORS

**Comprehensive Risk Management**

The Bank relies on a comprehensive process to manage risks that includes identifying, assessing, tracking, controlling and mitigating all significant risks. The comprehensive process for managing risks is geared towards having the Board of Directors and Senior Management involved in the management of all significant risks and having them oversee such management and understand the nature and level of risk taken on by the entity and how such risk relates to capital adequacy.

In addition, it is in line with the best practices in risk management and, in particular, with the Argentine Central Bank's guidelines for financial institutions' risk management. To make sure that its significant risks are properly managed, the Bank relies on a management framework and on management devices that are fitting to its size, complexity, economic weight and risk profile.

**a) Credit Risk:**

**Credit Risk Management - Retail Banking**

Retail Banking credit risk management is based on the Bank's annual planning process. As a result of such process, the Bank sets business goals, that is, the volume of loans to be granted during the year through each Retail Banking lending product (mortgage and consumer loans and credit cards). As part of this process, the Bank estimates the credit quality of the new loans, considering the sales channels through which they will be granted and the target market, and then forecasts expected arrears and write-off. In line with its business goals, and considering the aforementioned forecasts, the Bank sets a credit risk appetite; in other words, tolerance limits or levels based on indicators, such as the non-performing portfolio ratio and the annual loss rate (write-off). Through this planning process, which includes a definition session with the involvement of senior management and another session to present the plan to the Board, the Bank develops a Business Plan and Risk Strategy, both documents that embody the aforementioned goals and limits for the Board's approval.

Within this framework, the granting of new loans is guided by Credit Policies and Scoring Models. The policies, which establish credit eligibility requirements and line allocation criteria, are set out by Retail Banking Credit Risk and are approved by the Risk Management Committee and the Board of Directors on an annual basis. The models developed by the Bank or market models (developed by Veraz, Nosis and Visa) are subject to a validation process, established in the Scoring Model Validation Policy approved by the Board. Such policy sets out the responsibilities and criteria to be applied in validating models, oriented at maintaining a standard in their predictive capacity.

Loans are granted on the basis of a Decision Engine in which the scoring models and most conditions set out in credit policies are arranged. This ensures the accurate application of the established policies in general and, in turn, enables further assessment of the applications in accordance with the analysts' judgment, whether to reject them or approve them by exception. There is a limit for exceptions which is set out in the Credit Policy.

Indicators are developed and reported on an ongoing basis to monitor the performance of the several credit portfolios and, in particular, the quality of the new loans. The main indicators in this regard are part of the Risk Scorecard which is developed on a monthly basis by Management Control and submitted to the Risk Management Committee and the Board, at least, on a quarterly basis. In addition, a Main Risk

Indicator (PIR, for its Spanish acronym) report is prepared and submitted to Senior Management on a monthly basis, in which changes in arrears and write-off are monitored and sorted out by several criteria aimed at the early detection of departures from expectations. In addition, certain more specific reports are prepared in order for the Area Manager to be able to monitor the origination volume and mix and quality in terms of channels, businesses, segments and other relevant variables on an ongoing basis. In particular, several areas of the Bank continuously develop reports on credit assessment quality, regardless of the controls performed by the Audit area.

Both portfolio maintenance, which is mainly related to credit cards, and arrears management are governed by the aforementioned Credit Policies and Scoring Models. As concerns card portfolio maintenance, the policy mainly sets out the guidelines to manage credit facilities and access to product attributes, including, for instance, cash advances. As concerns arrears management, the policies govern the commencement of the several recovery stages –early arrears, advanced arrears, and court proceedings – and recovery means, settlement options (debt restructuring, reductions, etc.), and risk control or recovery actions (restraint, disqualification, account closing, etc.) enabled for each stage. Both processes are monitored by the Area Manager through reports prepared by the several divisions.

For credit risk management, that is, management of unexpected losses, the Bank has developed methodologies for the periodical performance of Stress Testing and Economic Capital calculation. The calculation of economic capital provides a measure of the risk assumed which is consistent with all other types of risks and considers the default rate historical volatility, the exposure usually associated with loans at the time of default, and losses upon default in normal and stress scenarios. Stress tests are useful to estimate, by applying predictive models, the impact of substantial impairment in activity and employment levels on an entity's profits. Both instruments provide a criterion to define the aforementioned appetite levels and to develop contingency plans in the face of potential stress scenarios.

**Credit Risk Management - Corporate Banking and Public Sector**

Effective credit risk management requires a suitable credit risk culture; therefore, the risk policies and risk management strategy in place are key elements to build such a culture, oriented at managing and mapping credit risk to the other risks on a comprehensive basis.

Corporate Banking credit risk management is based on the Bank's annual planning process. During such process, the Bank designs the plan and business strategy for each Corporate Banking segment (corporate, SMEs, real estate projects, financial institutions, public sector, and intermediaries), establishing, in general terms, the desired growth levels and positioning, degree of sectoral assistance, concentration levels, product mix to be boosted, and credit quality level to be maintained in respect of expected profitability, among other things. Credit portfolio concentration, as a potential source of losses, is regarded in credit manuals as a special point for attention. Credit concentration takes place when the Bank is too exposed to a substantial number of similar risks, with a single borrower, a group of related borrowers, an industrial or business sector, a geographic region, certain credit facility or a given risk-mitigating factor.

Risk appetite is also defined for each segment, and tolerance limits or levels are established and constantly monitored in order to anticipate any undesired departure. Such limits derive in indicators, such as, 12-month likelihood of default, concentration level by borrower within the portfolio, and concentration level by business sector within the portfolio.

The outcome of such planning, which involves the Bank's Senior Management and Directors, is embodied in the Business Plan and Risk Strategy final document, in which each of the aforementioned items is exposed in detail and is submitted to the Board for approval.

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Within this framework, credit decisions involving new lending, renewals, or portfolio follow-up are made following the guidelines set out in the comprehensive risk management policy as well as in the respective credit manuals developed for each business segment. Such policies are established by Corporate Banking Credit Risk and approved by the Risk Management Committee and the Board on an annual basis. The Bank also has a documented mechanism in place to set prices/rates based on risk; in other words, the risk-reward relationship is always at the core of every lending decision.

The Bank has a risk rating system specific to Corporate Banking, which seeks to support key credit risk parametric estimates to measure credit risk, through a credit analysis performed by an analyst specialized in the industry or sector at issue, according to the business segment and risk associated with the transaction. This rating system ensures transparency and consistency in terms of lending decisions which, together with the policies and manuals in place, lead to set the loan granting minimum standards based on credit ratings. Credit risk rating methodologies and parameters are reviewed and validated, at least, on an annual basis.

Ratings are also subject to permanent changes, as a result of perceived changes in the borrower's risk arising from updated information, with each change in ratings being submitted to and Internal Review Commission comprised by subject-matter specialists.

The Corporate Banking Credit Risk area is in charge of performing an independent analysis of any application that involves credit risk. All applications for commercial loans are reviewed and assessed on the basis of their respective exposure, in order to guarantee an appropriate assessment, correct approval, and ongoing monitoring and active management of risks.

The starting point of this review process is an assessment of the borrower's or counterparty's credit risk, where key factors are assessed, including borrower's management, historical and projected financial position, industry, trends, etc.

As a result of such assessment, a specific credit rating is assigned, with an associated likelihood of default. In addition, the transaction is analyzed with special focus on collateral, maturity, and general arrangement.

The Corporate Banking Credit Risk area renders an opinion, which is submitted to the Credit Committee, Executive Committee, or the Board of Directors for approval, depending on the amount involved in the transaction, as set forth in the respective credit manuals.

The Bank monitors the portfolio at the individual borrower level, on an ongoing basis and within the minimum terms set forth in the credit manuals, and assesses credit aspects, in addition to the customer's behavior with the Bank, payment history, use of checking account, etc. As concerns arrears management, the policies govern the commencement of the several recovery stages –early arrears, advanced arrears, and court proceedings – and establish the recovery means, settlement options (debt restructuring, reductions, further collateral, etc.), and risk control or recovery actions enabled for each stage.

The Bank develops indicators and reports on them on an ongoing basis to monitor the performance of the several business segments. The main indicators in this regard are part of the Risk Scorecard which is developed on a monthly basis by Management Control and submitted to the Risk Management Committee and the Board, at least, on a quarterly basis. In addition, the Bank develops several monthly and quarterly reports covering all risks associated with the portfolio on the basis of and in accordance with the business segment specificity.

The Bank has also developed methodologies for the periodical performance of stress tests and Economic Capital calculation. In connection with the stress tests aimed at measuring the impact of corporate banking portfolio credit risk in the face of the several potential values the defined risk factors may take, a rigorous and detailed analysis at the level of each individual customer is performed; in other words, the potential impact the borrower or counterparty may have is measured and then reviewed at an aggregate level. Individual stress tests have also been designed to reinforce the methodology and simulate *ad hoc* scenarios. Such stress tests have defined contingency plans which are triggered, according to the size of the projected event.

Below is a detail of the credit quality of the Group's financial assets:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| **Government and corporate securities** | **22,330,449** | **16,270,210** |
| Measured at fair value through profit or loss | 19,287,877 | 14,867,830 |
| Measured at amortized cost | 1,700,018 | 618,151 |
| Investments in equity instruments | 187,475 | 213,616 |
| Financial trust participation certificates | 874 | 10,449 |
| Shares in mutual funds | 255,389 | 392,061 |
| Pledged as collateral | 898,816 | 168,103 |
| **Loans and other financing arrangements** | **48,583,420** | **42,771,913** |
| Commercial portfolio | 16,770,442 | 14,175,221 |
| Performing | 16,606,563 | 14,158,016 |
| Non-performing | 163,879 | 17,205 |
| Consumer portfolio | 31,812,978 | 28,596,692 |
| Performing | 29,042,644 | 26,995,798 |
| Non-performing | 2,770,334 | 1,600,894 |
| **Other financial assets** | **3,487,999** | **3,791,222** |

Impairment of financial instruments

The Group accounts for Loans according to the type of loan portfolio, by performing an individual analysis of each customer within the “Commercial portfolio” or “Consumer comparable portfolio” and a massive analysis based on days in arrears for customers within the “Consumer portfolio.” The criteria followed by the Group to set up allowances are detailed in Note 7.

Loans and other financing arrangements, according to maturity term, are included in Schedule D accompanying theses financial statements.

Changes in allowances for loan losses for the fiscal year are included in Schedule R accompanying these financial statements.

Loans written-off

All loans within the consumer portfolio that must be fully accounted for in accordance with the applicable rules in force are written off one month after the date on which such provision is made. The balance of loans written-off as of December 31, 2018 and 2017 amounts to Ps. 1,954,654 thousand and Ps. 949,853 thousand, respectively.

**b) Market risk**

The Bank monitors market risk, which is defined as the risk of sustaining potential losses in both balance sheet and off-balance sheet positions as a result of adverse fluctuations in the market price for listed financial assets subject to trading, including, for instance, government and corporate debt securities, shares, currencies, derivative products, and debt instruments issued by the Argentine Central Bank.

Market risk is comprised by: 1) risks inherent to equity and debt securities and other financial instruments (price risk), and 2) currency mismatch risk both within balance sheet and off-balance sheet positions (exchange rate risk). Market risk embraces risks associated with both “linear” and “non-linear” instruments (derivatives).

As required by the new rules handed down by the Argentine Central Bank, a Trading Portfolio has been defined for market risk monitoring. A Trading Portfolio is defined as a portfolio comprising positions in financial instruments held for trading in the short term, in order to make a profit from price fluctuations.
The portfolio is managed according to the following strategic guidelines:
• Analysis of the several macroeconomic and market variables, with its ensuing impact on prices for financial assets.
• Allocation of weights to the several classes of assets, optimization of the portfolio risk-return profile, taking into account the several classes of assets and the interrelation among them.
• Analysis of the assets which, in the entity's view, are under or overvalued within each group and the potential for arbitrage within each of them.
• Compliance with both internal and external liquidity requirements.

The trading portfolio should be measured at fair market value for purposes of the capital requirement calculation. If the Bank has instruments within its portfolio with no market quotation, whether by reason of unavailability of a closing price or due to the fact that such price is not representative as a result of an illiquid position, it will estimate the fair value of the quotation.

“Fair values” are estimated by applying a calculation method, assumptions and parameters proposed by the Market Risk area, based on customary market practices, and are periodically agreed upon and reviewed by the Area Manager. The quotation will be estimated by discounting expected future cash flows at a representative market rate for such instrument, except for shares, in which case a comparable valuation method will be applied. The Bank's Internal Audit area, in compliance with the Argentine Central Bank's rules, periodically reviews the fairness of the criteria used in the estimate and the calculation. These controls are part of the Audit area's planning.

The methodology employed by the Bank in quantifying market risk is based on the “Value at Risk” (VaR), that is, an estimate of maximum probable losses in a given horizon, with an associated likelihood of no less than 99%. For positions with associated price risk, the Bank has set a minimum time horizon or holding period of ten sessions. Monitoring takes place on a daily basis through an internally developed system. The Bank has established “VaR” limits which are rigorously observed for exposures to each of the aforementioned risks. There are also exposure limits per type of instrument, namely: debt securities from the non-financial public sector, securities issued by the Argentine Central Bank, local private debt securities, local private trust securities, local equity, currencies and gold. Such limits are annually reviewed by the Finance and Risk Management Committees as part of the preparation of the new Business Plan and the related Risk Strategy. In order to verify the robustness of the models employed in estimating price risk, the Bank periodically conducts retrospective tests or “backtesting.” The Bank also conducts individual stress tests in order to estimate potential extreme losses no likely to be captured by parametric models.

The estimates of Value at Risk (price and foreign exchange risks) also help to determine the economic capital to be set aside for market risk.

As concerns market risk, the Finance and Risk Management Committees discuss and decide upon the main strategies to be followed in managing the security portfolio, the structural gap in foreign currency, and hedging alternatives, and are also involved in defining the tolerance level to be assumed by the Bank. The Risk Area is responsible for identifying, measuring, controlling and monitoring price and foreign exchange risks.

The tables below show the Group's exposure to foreign exchange risk as of fiscal year-end by type of currency:

| | **Balances as of 12/31/2018** | | | | **Balances as of 12/31/2017** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Monetary financial assets** | **Monetary financial liabilities** | **Derivative instruments** | **Net Position** | **Monetary financial assets** | **Monetary financial liabilities** | **Derivative instruments** | **Net Position** |
| | (In thousands of Ps.) | | | | | | | |
| Dollar | 19,634,741 | (23,886,831) | 3,088,989 | **(1,163,101)** | 9,934,384 | (11,199,300) | 227,245 | **(1,037,671)** |
| Euro | 117,058 | (2) | - | **117,056** | 72,054 | (53) | - | **72,001** |
| **Total** | **19,751,799** | **(23,886,833)** | **3,088,989** | **(1,046,045)** | **10,006,438** | **(11,199,353)** | **227,245** | **(965,670)** |

Derivative instruments are measured at the fair value of the respective currency at fiscal year-end.

The preceding table includes monetary assets and liabilities only, since investments in equity instruments and non-monetary instruments do not result in market risk exposure.

The following is a sensitivity analysis of income (loss) and shareholders' equity to reasonable changes in the preceding exchange rates relative to the Bank's functional currency, considering an instant variation in exposure as of the closing date.

| **Currency** | **Variation** | **12/31/2018** | | **12/31/2017** | |
|---|---|---|---|---|---|
| | | **Income (loss)** | **Shareholders' equity** | **Income (loss)** | **Shareholders' equity** |
| | | (In thousands of Ps.) | | | |
| U.S. Dollar | 10% | 185,968 | 185,968 | 31,312 | 31,312 |
| | -10% | (185,968) | (185,968) | (31,312) | (31,312) |
| Euro | 10% | 11,706 | 11,706 | 7,200 | 7,200 |
| | -10% | (11,706) | (11,706) | (7,200) | (7,200) |

**c) Interest rate risk:**

The Bank has a Market Risk Management Policy in place which sets forth the monitoring and control guidelines and methodologies in connection with the price, interest rate and foreign exchange risk it is exposed to; such policy also describes the reporting mechanisms, limits and early alert systems to keep the Finance and Risk Management Committees abreast of the risk profile, as well as of the roles and responsibilities of the several parties involved.

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As concerns interest rate risk management, the Bank monitors the amounts and contractual conditions of each new origination as well as the current portfolio (stock of loans, deposits, swaps, hedges, and securities, among others) to prevent potential departures from the defined risk appetite. The Bank also conducts an ongoing analysis of the several hedging alternatives in order to reduce interest rate gaps.

The Office of the Risk Manager is the area entrusted with the duties of identifying, measuring, controlling and monitoring interest rate risk. The Finance Committee, the Risk Management Committee, and the Product Committee are also involved in risk management, with their respective responsibilities.

Interest rate risk is quantified through two statistical approaches: “Net Interest Income at Risk” and “Economic Value at Risk.” The first of these two approaches assesses potential departures in interest income as a result of changes in interest rates, while the second approach assesses the potential impairment of the portfolio present value, as a consequence of potential fluctuations in the term structure of interest rates. Both approaches also include “baseline risk,” which arises from the imperfect correlation in lending and borrowing rate adjustments for instruments with similar revaluation features.

In addition to the two approaches mentioned above, the Bank also conducts a gap analysis (interval and cumulative gap) both in Pesos and US dollars in order to quantify interest rate risk exposure on several future dates, and under several sensitivity analyses, and stress tests.

Each measure has an associated limit, which is reviewed on an annual basis as part of the preparation of the new Business Plan and its related Risk Strategy.

**Quantitative information**

The Bank estimates its interest-rate risk economic capital using a measure referred to as “economic value at risk.” In such estimate, the Bank takes into account its entire portfolio of loans, securities and deposits, including also derivative transactions (swaps and futures). The estimated economic capital will account for the maximum impairment the present value of the portfolio may sustain within one year and with an associated likelihood of no less than 99%.

**d) Liquidity risk**

Funding liquidity risk is defined as the likelihood that the Group may not be able to efficiently fulfill its current or future, expected and unexpected cash flows, with margin call/execution, without interfering with its day-to-day operations or financial position.

On the other hand, market liquidity risk is defined as the likelihood that an entity may not be able to offset or sell a market position due to:

- The fact that the volume of the assets comprising such position in the secondary market is not sufficient;
- The occurrence of disruptive events in the market hindering the normal execution of operations and/or at reasonable prices.

The preceding definitions refer to liquidity risk in local currency, as well as to the risk related to positions in other currencies, including, but not limited to, foreign exchange mismatches. To such end, structural mismatch is defined as the difference between the commitments for securities issued in and/or adjusted for foreign currency and the assets denominated in and/or adjusted for the same currency. It also includes the risks stemming from positions which, due to regulatory issues, are not accounted for in the financial statements, as it is the case of certain derivate instruments.

**MANAGEMENT**

Liquidity risk management is defined as such actions planned for and/or carried out in order to maintain liquidity risk within the scope of the Board's definition. Such actions stem from the Finance Area's intrinsic mission of efficiently managing the liquid and financial resources. In addition, each subsidiary is required to manage liquidity risk, by putting in place the necessary strategies to fulfill their obligations.

The liquidity risk identification, measurement, monitoring and control process also provides the required quantitative and qualitative support to execute the actions required within a limited risk environment.

As part of the liquidity risk identification, measurement, monitoring and control process, several analytic tools are made available to perform these tasks, including an estimate of incoming and outgoing cash flows for several time periods, a periodical analysis of the deposit structure and funding alternatives, the measurement and monitoring of net cash flow requirements under several *ad hoc* scenarios, the monitoring of liquidity coverage and net stable funding ratios, an analysis of asset and liability concentration by several measurements, such as, by counterparty or type of customer, product, and term.

In order for control over liquidity risk to be effective, the Bank has established a scheme of limits and early alert warnings to keep the Finance Committee abreast of potential increases in risks and/or unexpected changes in the tolerance level. Once certain risk threshold has been reached, the Finance Committee is expected to assess the actions to be taken.

Similarly, the Bank monitors compliance with LCR and NSFR minimum requirements; in both cases, keeping the Finance Committee and the Director in charge of monitoring liquidity abreast of changes in such ratios.

The Finance Committee establishes the liquidity risk aversion level to be assumed by the Bank, and the Finance Area manages the currency liquidity mismatch risk following the guidelines set out by the Finance Committee and the Director in charge of liquidity. The Finance Area of each Subsidiary will be responsible for identifying their respective funding needs and the illiquidity events that might affect them.

**LIMITS, EARLY ALERTS AND MONITORING VARIABLES**

*High liquidity and minimum liquidity requirement*

In order to maintain a risk level in line with the tolerance threshold approved by the Board of Directors, the Bank has set minimum limits (“Minimum Liquidity Requirement”) for the liquid and/or readily realizable position (“High Liquidity”).

*Limits to foreign currency positions*

The Finance Committee sets maximum limits to purchased or sold positions in foreign currency and, to the extent necessary, to foreign exchange derivative instruments or other financial commitments in foreign currency.

*Exposure limit by type of instrument*

The Finance Committee defines an exposure limit by type or category of instrument and/or security applicable for the entire period.

*Deposit concentration and stability*

In order to build a stable and quality deposit base, the Bank takes actions to foster and give priority to the balanced growth of deposits, diversifying the customer base, geographic areas, and type of deposits. In order to be aware of liquidity risk implications and changes in liquidity projections as a result of deposit concentration, the Bank sets alert levels and defines the actions to be taken.

*Contingent liquidity requirements for special operations*
The Finance Committee approves and oversees the agreed-upon financial conditions and the contingencies associated with off-balance sheet operations and/or positions.

*Liquidity Coverage Ratio (LCR)*
Through Communication "A" 5724 handed down in March 2015, the Argentine Central Bank imposed a daily monitoring requirement, with monthly and quarterly reporting to the Argentine Central Bank.

*Net Stable Funding Ratio (NSFR)*
Through Communication "A" 6306, the Argentine Central Bank established a new indicator to be monitored on a daily basis and reported quarterly to the Argentine Central Bank.

The goal of the NSFR is for financial institutions to be able to monitor to what extent they may fund their activities out of sufficiently stable sources to mitigate the risk of future stress scenarios resulting from their funding.

The table below shows the Bank's liquidity coverage ratios (LCR) for the fiscal years ended December 31, 2018 and 2017:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Average for the year | 194% | 148% |
| Higher | 239% | 220% |
| Lower | 145% | 117% |

The breakdown of financial assets and liabilities by maturity are disclosed in Schedule D "Breakdown of Loans and Other Financing Arrangements by Maturity Dates" and Schedule I "Breakdown of Financial Liabilities by Maturity Dates" to these financial statements, respectively.

## 31. CAPITAL MANAGEMENT

The Bank's capital management goals are:
- Fulfilling the requirements established by the BCRA in its Communication "A" 6260, as amended;
- Supporting the Bank's operations to prevent any situation that may endanger them.

As of December 31, 2018 and 2017, the Bank's total capital under management and subject to regulation amounted to 1,500,000 (see Note 19).

According to the BCRA's guidelines, financial institutions are required to maintain certain capital ratios to mitigate the associated risks. The Bank has met the minimum capital requirement determined in accordance with the BCRA's rules.

Regulatory Capital (*Responsabilidad Patrimonial Computable*) is comprised by Core Capital and Supplementary Capital. The table below shows a breakdown of the respective balances:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Core Capital | | |
| Tier 1 Ordinary Capital | 9,786,474 | 7,652,603 |
| (Deductible items) | (1,182,054) | (548,946) |

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| | | |
|---|---|---|
| Tier 1 Additional Capital | 15,681 | 28,590 |
| Supplementary Capital | | |
| Tier 2 Capital | 418,832 | 364,322 |
| (Deductible items) | | - |
| **Regulatory Capital (*Responsabilidad Patrimonial Computable*)** | **9,038,933** | **7,496,569** |

Below is a detail of the determined capital requirement:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Credit risk | 4,152,774 | 3,280,568 |
| Market risk | 420,234 | 487,348 |
| Operational risk | 1,238,127 | 891,333 |
| **Core requirement** | **5,811,135** | **4,659,249** |
| **Payment** | **9,038,933** | **7,496,569** |
| **Surplus / (Deficit)** | **3,227,798** | **2,837,320** |

## 32. NOTES REQUIRED BY THE ARGENTINE CENTRAL BANK

### 32.1. Deposit Guarantee Insurance System

Law 24485 and Decrees 540/95 created the Deposit Insurance System for the purpose of providing coverage for bank deposits in addition to the privileges and protection system provided for under the Financial Entities Law. Through Communication “A” 5943, the authority established that as from May 1, 2016, the cap for deposit insurance is 450 thousand pesos until February 28, 2019. As from March 1, 2019, the cap increased to 1,000 thousand pesos through Communication “A” 6654.

Deposits denominated in Pesos and in foreign currency are guaranteed for up to Ps. 1,000 thousand. In the case of transactions in the name of two or more individuals, the guarantee will be apportioned among them. In any case, the total guarantee per individual and per deposit may not exceed Ps. 1,000 thousand, regardless of the number of accounts and/or deposits. Time deposits taken at a rate higher than the reference rate according to the limits set forth by the Argentine Central Bank, time deposits acquired through endorsement, and time deposits made by persons related to the Bank are excluded.

In addition, through Communication “A” 6435, effective January 20, 2018, the BCRA provided for the exclusion of sight deposits with interest rates above reference rates and term deposits and investments with rates that are 1.3 times higher than the reference rate. Time deposits and fixed-term investments will also be excluded when these limits on interest rates are distorted by additional incentives or yields.

The contribution that entities shall make on a monthly basis to the Fund is 0.015% over the monthly average of deposits involved. In addition to the normal deposit, entities shall make an additional contribution according to the result obtained from weighting several factors.

It is also established that the Argentine Central Bank may require an advance payment of an amount equivalent to 24 minimum standard contributions within at least 30 calendar days to meet the Fund’s needs for resources.

### 32.2. Restricted assets

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Below is a detail of the restricted assets as of each indicated date:

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| **Banco Hipotecario** | | | |
| BCRA special guarantee accounts related to electronic clearing agencies | 537,232 | 435,529 | 341,643 |
| Instruments issued by the Argentine Central Bank as collateral for OTC ROFEX transactions | 768,874 | 117,520 | 326,789 |
| Government securities and instruments issued by the Argentine Central Bank as collateral for MAE transactions | 39,017 | 247 | 3,989 |
| Cash and deposits in escrow as collateral for Visa credit card transactions | 420,184 | 321,740 | 364,586 |
| Cash and deposits in escrow as collateral for offices and stores leases | 527 | 1,218 | 1,027 |
| Cash and deposits in escrow as collateral for Red Link losses | 2,083 | 1,365 | 810 |
| | **1,767,917** | **877,619** | **1,038,844** |
| | | | |
| **BACS** | | | |
| Pledge loans assigned as collateral | - | 7,776 | 26,572 |
| Instruments issued by the Argentine Central Bank, government securities and Pesos as collateral for OTC ROFEX transactions | 238,278 | 153,257 | 32,214 |
| | **238,278** | **161,033** | **58,786** |
| | | | |
| **Tarshop** | | | |
| Cash and deposits in escrow as collateral for commercial stores leases | 2,038 | 1,253 | 715 |
| Pledge over collection rights under the Series XCIX Tarjeta Shopping financial trust as loan collateral | 32,202 | 32,213 | 32,205 |
| Funds for contingencies, expenses and other miscellaneous receivables from the financial trusts | 149,557 | 149,004 | 131,209 |

| | | | |
|---|---|---|---|
| Time deposits pledged as collateral for tax liabilities from certain trust series (a) | 9,197 | 7,800 | 6,531 |
| Loans held in trust as collateral for overdraft facilities (b) | 79,000 | 78,315 | 84,341 |
| Loans from trusts in process of subscription (c) | - | 84,476 | 96,125 |
| Cash and deposits in escrow as collateral for Tarshop/Visa credit card transactions | 49,377 | 36,240 | 18,142 |
| Government securities in escrow as collateral for Tarshop/Visa credit card transactions | 36,369 | 26,274 | 15,991 |
| | **357,740** | **415,575** | **385,259** |
| | | | |
| **BH Valores** | | | |
| Share in Mercado de Valores de Buenos Aires pledged for the benefit of Chubb Argentina de Insurance S.A. | - | - | 33,200 |
| | **-** | **-** | **33,200** |
| | | | |
| **Total** | **2,363,935** | **1,454,227** | **1,516,089** |

(a) The pledge will remain in force up and until there is a resolution to the potential tax contingencies arising from the above-mentioned Financial Trusts in respect of the relevant part.

(b) In October 2015, Industrial and Commercial Bank of China (Argentina) S.A. granted Tarshop S.A. a checking account overdraft facility for up to Ps. 40,000 thousand, which was extended to Ps. 60,000 thousand in June 2016. As security for the performance of its obligations, Tarshop S.A. has assigned and transferred to Banco de Valores S.A., as collateral trustee, fiduciary ownership of the trust receivables. Such receivables and accrued interest will be held and carried in the Tarshop's books of accounts. Therefore, any taxes, duties, rates or similar items, if any, that may be imposed under the different tax laws on account of such holdings and results, will be considered and included in Tarshop's applicable taxable bases, as Tarshop agreed to bear the costs and expenses arising from the defense and any charges that could be imposed by the tax authorities on the trust and/or the trustee.

(c) As of December 31, 2017 and 2016, Tarshop maintained its own portfolio loans from Financial Trusts, whose availability were restricted as of such dates, until on the IPO date a decision was made on whether to place such loan portfolios and transfer them to the trust portfolio or to keep them as its own freely available portfolio, as applicable.

As of such dates, BHN Sociedad de Inversión S.A. did not have restricted assets.

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**32.3. Fiduciary activities**

The Entity acts as trustee, trustor or administrator in the following trusts:

Role as Trustee:

**PROGRAMA CRÉDITO ARGENTINO DEL BICENTENARIO PARA LA VIVIENDA ÚNICA Y FAMILIAR (Pro.Cre.Ar.)**

On June 12, 2012, the Argentine Executive Branch issued Decree No. 902 whereby it ordered the creation of a Public Fiduciary Fund referred to as *Programa Crédito Argentino del Bicentenario para la Vivienda Única Familiar* (Argentine Single Family Housing Program for the Bicentennial) (Pro.Cre.Ar.). On that same date, the Bank's Board of Directors approved the Bank's role as trustee of the referred fund.

On July 18, 2012, the Argentine Government, as Trustor, and Banco Hipotecario S.A. as Trustee, created the "PROCREAR" Administrative and Financial Trust, and its underlying assets were transferred to it as trust property.

The Trust's sole and irrevocable purpose is as follows: (i) to manage the trust assets with the aim of facilitating the population's access to housing and the generation of job opportunities as economic and social development policies, in compliance with the principles and objectives set forth in Decree No. 902; (ii) the use by the Trustee of the net proceeds from the placement of the Trust Bonds (*Valores Representativos de Deuda* or VRDs) and cash contributions by the Argentine Government to originate loans for the construction of houses in accordance with the provisions of Decree No. 902 and the credit lines; and (iii) the repayment of the VRDs in accordance with the terms of the agreement that creates the Trust and the provisions of the Trust Law.

The Trust shall be in effect for a term of thirty (30) years as from the date of execution of the agreement (July 18, 2012).

In addition to the obligations imposed on it under the Trust Law and the Commercial Code, the Trustee is required to:

- Perform the obligations set forth in the Trust Agreement and follow the instructions imparted on it by the Executive Committee;
- Carry out its duties as Trustee with the loyalty, diligence and prudence of a good businessman acting on the basis of the trust placed on such Trustee;
- Exercise the powers granted to it under the Agreement, and preserve the Trust Assets;
- Use the Trust Assets for lawful purposes, in accordance with the provisions of the Agreement and following the Executive Committee's instructions;
- Identify the Trust Property and record it in a separate accounting system, segregated from its own assets or the assets of other trusts held by it at present or in the future in the course of its business;
- Prepare the Trust's financial statements, hire the relevant audit firms and comply with the applicable disclosure regulations;
- Ensure the Trust Assets against risks that could affect their integrity;
- Invest or reinvest the Trust's funds in accordance with the provisions of the Agreement and following the instructions imparted by the Executive Committee.

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As of December 31, 2018, the Trust's financial position, not restated in constant currency, was as follows:

- Assets: Ps. 89,189,833 thousand.
- Liabilities: Ps. 43,154,476 thousand.
- Shareholders' Equity: Ps. 46,035,357 thousand.

As of December 31, 2018, the PRO.CRE.AR Administrative and Financial trust portfolio was composed of 117,508 mortgage loans for the construction of permanent, single family houses and 173,947 consumer loans. The amount disbursed for construction as of such date was Ps. 49,798,093 thousand and Ps. 8,496,979 thousand, respectively. The committed amounts pending disbursement total Ps. 69,611 thousand.

The conditions of these loans vary based on the family income segment involved.

<u>Role as Trustor</u>

**GLOBAL MULTI-ASSET MORTGAGE TRUST SECURITIES PROGRAM**

"CHA UVA Series I Financial Trust" is a financial trust created pursuant to the Indenture dated April 23, 2018 entered into by the Bank, in its capacity as trustor and TMF Trust Company (Argentina) S.A., in its capacity as trustee. Upon the transfer of the mortgage loans to the trustee, the trustee issues the corresponding debt securities and certificates of participation and settles the amount of the loans transferred by the Bank, out of the proceeds from the issuance. The assets held in trust are separate from the trustee's and the trustor's assets. The following is the single series outstanding under the program as of December 31, 2018:

| | Debt securities Class A | Debt securities Class B | Certificates of Participation | Total |
|---|---|---|---|---|
| CHA UVA Series I - Issued on April 23, 2018 | | | | |
| Face value in thousands of UVA | 8,645 | 5,763 | 4,802 | 19,210 |

**GLOBAL TRUST SECURITIES PROGRAM, "CÉDULAS HIPOTECARIAS ARGENTINAS"**

The Bank has entered into several financial trust agreements pursuant to which, as trustor, transfers the fiduciary ownership of mortgage loans within its loan portfolio to several financial institutions, as trustee. Once the mortgage loans have been transferred to the trustee, it proceeds to issue the respective debt securities and participation certificates and to settle the amount of the loans assigned by the Bank out of the net proceeds from the placement. The trust property is separate from the trustor's and trustee's assets.

The trustee is liable to manage the trust funds previously created in accordance with the specifications of the trust agreement.

In 2004, the Bank created a Global Trust Securities Program, "CÉDULAS HIPOTECARIAS ARGENTINAS" for the securitization of individual mortgage loans for the financing of housing units for a face value of up to Ps. 500,000,000, which was authorized by CNV Technical Pronouncement No. 14814 dated June 3, 2004.

As of December 31, 2018, fourteen series of Argentine Mortgage Bonds Financial Trusts (CHA) were created, of which eight series fell under the scope of the referred Program, and the other six series were individual issues. As of the closing date of these financial statements, the following series were outstanding:

| | Debt securities Class A1/AV | Debt securities Class A2/AF | Debt securities Class B | Participation certificates | Total |
|---|---|---|---|---|---|
| CHA IX Issued on 08.28.2009 | | | | | |
| Face value in thousands of Ps. | 192,509 | | | 10,132 | 202,641 |
| Declared maturity date | 02.07.2027 | | | 07.07.2027 | |
| CHA X Issued on 08.28.2009 | | | | | |
| Face value in thousands of Ps. | | | | 17,224 | 17,224 |
| Face value in thousands of US$ | 85,001 | | | | 85,001 |
| Declared maturity date | 01.07.2027 | | | 06.07.2028 | |
| CHA XI Issued on 12.21.2009 | | | | | |
| Face value in thousands of Ps. | 204,250 | | | 10,750 | 215,000 |
| Declared maturity date | 03.10.2024 | | | 10.10.2024 | |
| CHA XII Issued on 07.21.2010 | | | | | |
| Face value in thousands of Ps. | 259,932 | | | 13,680 | 273,612 |
| Declared maturity date | 11.10.2028 | | | 02.10.2029 | |
| CHA XIII Issued on 12.02.2010 | | | | | |
| Face value in thousands of Ps. | 110,299 | | | 5,805 | 116,104 |
| Declared maturity date | 12.10.2029 | | | 04.10.2030 | |
| CHA XIV Issued on 03.18.2011 | | | | | |
| Face value in thousands of Ps. | 119,876 | | | 6,309 | 126,185 |
| Declared maturity date | 05.10.2030 | | | 08.10.2030 | |

In these trust funds, BACS acted as Arranger and currently acts as General Administrator.

**FINANCIAL TRUST "FIDEICOMISO FINANCIERO PRIVADO PRENDAS BACS"**

Financial trust "Fideicomiso Financiero Privado Prendas BACS" was created on November 28, 2014 for an aggregate principal amount of Ps. 32,098,452, with BACS acting as trustor, arranger and administrator and Rosario Administradora Sociedad Fiduciaria S.A. acting as Financial Trustee. The trust assets were comprised by pledge loans originated by BACS. On December 19, 2014, the second series of the financial trust was issued for an aggregate principal amount of Ps. 13,043,465. On June 29, 2015, the third series of the financial trust was issued for an aggregate principal amount of $ 39,775,200. On November 30, 2017, the financial trust was repaid and settled.

**TARSHOP GLOBAL TRUST SECURITIES PROGRAM**

The Board of Directors of our subsidiary Tarshop, at the meeting held on April 13, 2009, authorized the creation of a portfolio securitization program ("Programa Global de Valores Fiduciarios Tarshop"). This trust program for the issuance of participation certificates and trust debt securities was developed in accordance with Law No. 24,441 and approved by the CNV through Resolution No. 16,134 dated June 4, 2009, with Banco de Valores S.A. acting as Trustee of Tarjeta Shopping Financial Trusts.

This program is applicable to Financial Trust Tarjeta Shopping Series LI onwards. Commencing upon Financial Trust Tarjeta Shopping Series LX onwards, only trust debt securities are issued in accordance with Law No. 24,441, while the excess of trust receivables over the principal amount of trust debt securities is regarded as over-subscription, and will not be released until the settlement of such securities.

Under the aforementioned securitization programs, Tarshop transfers receivables from credit card consumptions and cash advances to the Financial Trusts Tarjeta Shopping, which in turn issue trust debt securities for public and private investors.

These trusts may issue two types of certificates representing undivided interests therein: trust debt securities ("VDF") and participation certificates ("CP"), the latter of them having been issued up to, and including, Financial Trust Tarjeta Shopping Series LIX. CPs are subordinated securities entitling holders to a proportional interest in cash flows from trade receivables, following the repayment of principal and interest in respect of VDFs, and other fees and expenses.

VDF holders receive periodical payments of principal and interest during the life of the security. The proceeds from the underlying assets are used by the Trust to acquire trade receivables for additional sales during the "revolving" period for series issued under this modality. Upon termination of the "revolving" period, the trust is settled, at which time: (i) no other assets are acquired, (ii) all cash proceeds are used for the service of principal and interest on the remaining VDFs and other expenses, and (iii) the remaining proceeds are used to service principal and interest on CPs, where applicable.

**FINANCIAL TRUSTS TARSHOP PRIVADOS**

As from 2015, private financial trusts were created pursuant to the terms of Volume Three, Title IV, Chapter 30 of the Argentine Civil and Commercial Code. As of December 31, 2018, financial trusts Tarjeta Shopping Privado III, Tarjeta Shopping Privado IV, Tarjeta Shopping Privado V and Tarjeta Shopping Privado VI are in force.

Tarshop transfers receivables from credit card consumptions, cash advances and consumer loans to these financial trusts.

<u>Role as Administrator</u>

**CHA UVA SERIES 1 FINANCIAL TRUST**

"CHA UVA Series I Financial Trust" is a financial trust created pursuant to the Indenture dated April 23, 2018 entered into by the Bank, in its capacity as trustor, manager and custody agent and TMF Trust Company (Argentina) S.A., in its capacity as trustee. Furthermore, BACS acts as alternate manager.

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**FINANCIAL TRUST ADMINISTRATION**

BACS is the general administrator of the trust funds BHN II, BHN III, BHN IV, BACS I, BACS Funding I, BACS Funding II, BHSA I 2002, Fideicomiso Hipotecario BACS III, Cédulas Hipotecarias Argentinas (CHA) Series VI, VII, VIII, IX, X, XI, XII, XIII, XIV, and the trustee of Red Mutual XXIV, Red Mutual XXV, Red Mutual XXIX, Red Mutual XXX, Red Mutual XXXI, Red Mutual XXXII, Red Mutual XXXIII, Red Mutual XXXV and Red Mutual XXXVI trust funds, many of which have been settled during the previous fiscal year.

**FINANCIAL TRUST “FIDEICOMISO FINANCIERO PRIVADO PRENDAS BACS”**

Financial trust “Fideicomiso Financiero Privado Prendas BACS” was created on November 28, 2014 for an aggregate principal amount of Ps. 32,098,452, with BACS acting as trustor, arranger and administrator and Rosario Administradora Sociedad Fiduciaria S.A. acting as Financial Trustee. On November 30, 2017, the financial trust was repaid and settled.

**32.4. Compliance with the regulations required by the Argentine Securities Commission**

**Duty to retain documentation**

On August 14, 2014, through its General Resolution No. 629, the Argentine Securities Commission (“CNV”) imposed a duty to detail in a Note to the Financial Statements, the address and identity of the person responsible for the warehouse accommodating the supporting documentation for issuers' accounting transactions and management.

To comply with the duty described in the preceding paragraph, Banco Hipotecario S.A. reports that the documentation retained in an off-site location is at the warehouses of the company Bank S.A. located in Carlos Pellegrini 1401 (Avellaneda).

**Capital Markets Law**

<u>Banco Hipotecario</u>

According to the Capital Markets Law No. 26,831 and the regulations handed down by the CNV, the Bank is registered as: (i) Financial Trustee No. 57, (ii) Settlement and Clearing Agent and Comprehensive Trading Agent No. 40, and (iii) Mutual Fund Placement and Distribution Agent No. 12. In turn, in its capacity as Settlement and Clearing Agent and Comprehensive Trading Agent, the Bank is registered with the following markets authorized by the CNV: (i) Bolsas y Mercados Argentinos S.A. (BYMA), (ii) Mercado Abierto Electrónico S.A. (MAE), and (iii) ROFEX S.A.

On May 11, 2018, the Productive Financing Law No. 27,440 was published in the Official Gazette, amending several other laws, including the Capital Markets Law No. 26,831, as regulated by Decree No. 1023/2013. Therefore, the CNV enacted General Resolution No. 731, expected to come into force since October 1, 2018. Such Resolution provides for a comprehensive amendment to the rules and regulations applicable to Agents set out under General Resolution No. 622/2013.

According to Section 13 of such Resolution, Settlement and Clearing Agents and Comprehensive Trading Agents are required to permanently maintain a minimum shareholders' equity amount of Pesos eighteen million (Ps. 18,000,000) as reflected in their annual and interim financial statements covering six-month periods. In this sense, it is reported that Banco Hipotecario's minimum shareholders' equity composed as required by the rules issued by the Argentine Central Bank exceeds the minimum amount required under such resolution. On the other hand, the Bank's equity was duly paid in as of December 31, 2018.

On the other hand, Section 15 of General Resolution No. 731 handed down by the CNV sets forth that no

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less than fifty percent (50%) of the minimum shareholders' equity amount shall fulfill the requirements of Schedule I, Title VI of the CNV's regulations. In turn, such schedule sets forth the requirements applicable to the liquid balancing account in the Mandatory Guarantee Fund set forth in Section 45 of Law No. 26,831 and in the Guarantee Fund for Customers' Claims. Accordingly, the liquid balancing account is identified – through BONAR 2024 government security – Government Bond carried at fair market value, as per the following detail:

| Date | Amount Ps. as per CNV Matrix | Government security | Kind CV | Amount | Listing | Valuation |
|---|---|---|---|---|---|---|
| 12/31/2018 | 10,500,000 | AY24 | 5458 | 1,000,000 | 35.47 | 35,470,000 |

BACS

Pursuant to CNV's Resolution No. 17,338 dated April 24, 2014, BACS, Banco de Crédito y Securitización S.A., was registered with the Registry of Financial Trustees prescribed by Sections 6 and 7 of Chapter IV, Title V of the Rules, under No. 55. and, on September 19, 2014, CNV communicated to BACS that, in its capacity as Settlement and Clearing Agent - Comprehensive and Trading Agent, the Bank has been assigned License No. 25. It must be noted that BACS' minimum shareholders' equity as of fiscal year-end.

In addition, as Settlement and Clearing Agent and Trading Agent- Comprehensive, the Company has been entered in the Registry of Agents kept by MERVAL under No. 179, following the resolution adopted by MERVAL's Board of Directors at its meeting dated November 19, 2014. The Company was permitted to operate on April 17, 2015 pursuant to Merval Communication No. 15,739 and was admitted as member of ROFEX (Mercado a Término de Rosario S.A. and Argentina Clearing S.A.), Communication No. 628.

Through Resolution No. 18,381 issued by the CNV on November 24, 2016, BACS was registered in the Registry of Custody Agents of products of Collective Investment of Mutual Funds under No. 247 under the terms of Section 14 of Law 24,083 and Section 11 of Chapter I, Volume V of the CNV Rules.

BH Valores

BH Valores is registered with the CNV as a Settlement and Clearing Agent in its own. According to the minimum requirements laid down, BH Valores' minimum shareholders' equity exceeds the amount prescribed by such resolution and was duly paid-in as of year-end. As to the liquidity requirement, it has been satisfied through Bolsas y Mercados Argentinos S.A.'s shares, for a nominal value of 250,000, equivalent to Ps. 85,875 thousand as of December 31, 2018.

At a meeting held on May 6, 2015, the boards of directors of the Bank and BH Valores approved the transfer of most of BH Valores' customer accounts to the Bank, as part of a broader strategy entailing the transfer of all such accounts in order to develop the operations of the Bank's Investment department. As of the date of these financial statements, the accounts have been transferred.

**32.5. Accounts that identify the compliance of the minimum cash requirements**

Below is a detail of the items computed by the Bank to comply with the minimum cash requirements (according to regulations established by Argentine Central Bank on the matter) and the corresponding average balances as of December 31, 2018:

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| | Currency / Security | | | | |
|---|---|---|---|---|---|
| | Ps. | Ps. | Ps. | Bonar USD 2024 | Bonar USD 2020 |
| | (Figures in thousands in the relevant currency) | | | | |
| Checking accounts at BCRA | 3,322,954 | 42,945 | 95 | - | - |
| Special accounts at BCRA | 509,573 | 574 | - | - | - |
| Payment with BOTE 2020 security | 960,292 | - | - | - | - |
| Payment with Leliq | 2,258,883 | - | - | - | - |
| Payment with Leliq Item 1.3.19 | 817,853 | - | - | - | - |
| CRYL account | - | - | - | 513 | 1,421 |
| **Total paid-in** | **7,869,555** | **43,519** | **95** | **513** | **1,421** |
| **Total requirement** | **8,483,182** | **36,988** | **-** | **466** | **1,234** |
| Required deduction (1) | 615,411 | - | - | - | - |
| **Monthly position** | **1,784** | **6,531** | **95** | **47** | **187** |

(1) ATM withdrawals, “Ahora 12” plan and “MiPymes” deduction.

**32.6. Penalties imposed on the Bank and summary proceedings initiated by the Argentine Central Bank and other regulatory authorities**

**I – Summary proceedings before administrative authorities:**

1. On August 11, 2015, the Bank was notified of Resolution No. 76/15, whereby the Chairman of the Financial Information Unit (UIF) had ordered the start of summary proceedings against Banco Hipotecario S.A., its directors (Eduardo S. Elsztain, Mario Blejer, Jacobo Julio Dreizzen, Carlos B. Písula, Ernesto M. Viñes, Gabriel G. Reznik, Pablo D. Vergara del Carril, Mauricio Wior, Saúl Zang, Edgardo Fornero, Diego Bossio, Mariana Gonzalez and Ada Maza) and its Compliance Officer (Ernesto M. Viñes) in connection with alleged failures to comply with Section 21, a) of Law No. 25,246 and Resolution UIF No. 121/11. According to said resolution, the Bank and its directors had *prima facie* failed to comply with certain customer identification requirements, monitoring standards, the risk matrix definition and the procedures to update its customers’ background and profiles, among other things.

On September 23, 2015, the Bank raised depositions and defenses with the UIF along with documentary evidence, and produced informative evidence, IT expert opinions and oral evidence. On April 13, 2016, the production of evidence was ordered, and all evidence was duly produced in due time and form, including, among them, the report issued by the Argentine Central Bank on the risk adjustment and mitigation plan submitted in due time by Banco Hipotecario. At the conclusion of this procedural stage, the attorneys-in-fact of the persons subject to the summary proceedings filed their closing arguments concerning the evidence produced.

Based on the UIF’s background on similar cases, the Bank is likely to be imposed an administrative fine. Therefore, it was deemed reasonable to create allowances amounting to Ps. 60 thousand, of which Ps. 40 thousand were booked on October 22, 2015 and Ps. 20 thousand were booked on October 25, 2018.

2. On February 15, 2016, the Bank was notified of Resolution No. 1014/16 whereby the Superintendent of Financial Institutions ordered the commencement of summary proceedings (Summary Proceedings No. 1486), against Banco Hipotecario and its Chairman, Mr. Eduardo S. Elsztain on grounds of alleged violations of the rules in Communication “A” 4490, including the failure to report the appointment of new authorities and delays in filing the documentation associated with such new authorities. On July 30, 2018, the defendants were notified by electronic means of Resolution No. 371/18 whereby the Superintendent of Financial Institutions imposed warning measures on both Banco Hipotecario S.A. and Mr. Eduardo S. Elsztain.

On August 21, 2018, the Bank and Mr. Eduardo S. Elsztain filed a motion to revoke such resolution pursuant to Section 42 of the Financial Institutions Law within the applicable statute of limitations. On October 25, 2018, the allowance created in due time was reversed.

3. On March 7, 2018, the Bank was notified of Resolution No. 94 handed down on February 22, 2018, whereby the Superintendent of Financial and Foreign Exchange Institutions ordered the commencement of summary proceedings in the terms of Section 41 of the Financial Institutions Law against Banco Hipotecario S.A.; directors Martín Juan Lanfranco; Mauricio Elias Wior; and Gabriel A. Reznik; and managers Julieta Albala and Ricardo Gastón (Summary Proceedings No. 1545 – File No. 100,474/17), on grounds of alleged violation of the rules on transfers of funds set forth in Communication “A” 6242 for “breach of the duty of adding the item “Payroll” to the Transfers menu in Home Banking.” On March 21, 2018, the Bank filed its defenses and arguments with the Argentine Central Bank’s Department of Contentious Financial Matters.

In light of the likelihood that the Bank could be imposed an administrative fine, it was deemed reasonable to create an allowance for this contingency amounting to Ps. 600 thousand, which was booked on March 28, 2018.

4. On November 25, 2014, the Financial Information Unit (UIF) notified Tarshop S.A. of the commencement of summary proceedings identified under Resolution No. 234/14, on grounds of potential formal violations arising from the alleged breach of Section 21, a) of Law No. 25,246 and Resolutions UIF No. 27/11 and 2/12. Accordingly, the Company (Tarshop S.A.), its Compliance Officer (Mauricio Elías Wior) and the then Directors (Eduardo Sergio Elsztain, Saúl Zang, Marcelo Gustavo Cufré and Fernando Sergio Rubín) were summoned to file defenses. In the legal counsel’s opinion, at the current stage of the proceedings and based on the precedents existing at the UIF in connection with similar cases, it is estimated that there are chances of imposing an administrative penalty. Accordingly, the Bank has booked an allowance for Ps. 360 thousand in fiscal year ended December 31, 2016. On May 4, 2018, the Company was notified that the UIF has imposed a lower penalty, which will be appealed before the relevant appellate body.

**II – Summary proceedings pending court decision.**

1. On October 31, 2014, the Bank was notified of Resolution No. 685 dated October 29, 2014 handed down by the Superintendent of Financial and Foreign Exchange Institutions in the summary proceedings in financial matters No. 1320 whereby the Bank and its authorities had been charged, on the one hand, with alleged violations to the rules governing financial aid to the Non-Financial Public Sector, excess over the limits of fractioned exposure to credit risk from the non-financial public sector, excess in the allocation of assets pledged as collateral, failure to satisfy minimum capital requirements, and objections against the accounting treatment afforded to the “Cer Swap Linked to PG08 and External Debt” transaction and, on

the other hand, with delays in communicating the appointment of new directors and tardiness in the provision of documentation associated with the directors recently elected by the shareholders' meetings. Resolution No. 685 then fined Banco Hipotecario S.A. with Ps. 4,040 thousand and also fined its directors (Eduardo S. Elsztain; Jacobo J. Dreizzen; Carlos B. Písula; Edgardo L. Fornero; Gabriel G. Reznik; Pablo D. Vergara del Carril; Ernesto M. Viñes; Saul Zang; Mauricio E. Wior), former directors (Clarisa D. Lifsic de Estol; Federico L. Bensadón; Jorge L. March and Jaime A. Grinberg), statutory auditors (Messrs. Ricardo Flammini; José D. Abelovich; Marcelo H. Fuxman; Alfredo H. Groppo; and Martín E. Scotto), the Area Manager Gustavo D. Efkhanian and former managers (Gabriel G. Saidón and Enrique L. Benitez) for an aggregate amount of Ps. 51,582 thousand. Under this decision, former Statutory Auditor Ms. Silvana M. Gentile was acquitted.

On November 25, 2014, Banco Hipotecario and the other individuals affected by the adverse decision lodged an appeal under Section 42 of the Financial Institutions Law, that was sent by the Argentine Central Bank to the National Appellate Court with Federal Jurisdiction over Contentious and Administrative Matters. Therefore, at present the case is being heard by Panel I of such Appellate Court. Moreover, on December 30, 2014, the Bank and the individuals against whom sanctions were imposed requested the levying of separate injunctions by such court against the enforcements pursued by the Argentine Central Bank for collection of the fines.

Upon being notified of the resolution handed down on June 30, 2016 by the Appellate Court that denied the motion for injunction filed by the Bank and by the directors, managers and some of the statutory auditors and in order to prevent further conflicts and financial damage that could result from the actions to compel payment of fines, the Bank's Executive Committee decided to apply the indemnity rules regarding directors, high ranking officers and statutory auditors, as an alternative for the amounts not covered by the D&O insurance policy approved by the Bank's Board of Directors at its meetings held on August 2, 2002 and May 8, 2013, and resolved to deposit the amounts of the fines.

Such deposit, including the amount corresponding to the fine imposed on the Bank and the respective legal costs, totaled Ps. 57,672 thousand. Out this amount, Ps. 53,632 thousand were expensed for the fiscal year ended December 31, 2015 and Ps. 4,040 thousand were computed as an allowance for the fiscal year ended December 31, 2014.

This notwithstanding, in the brief filed with the court that is hearing the proceedings to compel payment it was sustained that the amounts deposited in the judicial accounts opened to such end were subject to attachment, and a petition was filed for the respective amounts to be invested in automatically renewable term deposits for 180 days in order to ensure the integrity of the funds until the Appellate Court with Federal Jurisdiction over Contentious and Administrative Matters hands down a decision on the appeal lodged against Resolution No. 685/14 of the Argentine Central Bank. The requests for injunction were rejected and the court made progress in the proceedings for enforcing the fines, against each of the defendants. For such reason, the amounts subject to attachment were applied to the payment of the relevant fines.

On February 22, 2019, Division I of the National Appellate Court with Federal Jurisdiction over Contentious and Administrative Matters resolved the following, with one negative vote from a judge: "1) Partially sustain the appeal filed by BHSA, its directors –Mrs. Lifsic de Estol and Messrs. Elsztain, Bensadón, Dreizzen, Fornero, Grinberg, March, Písula, Reznik, Vergara del Carril, Viñes, Zang and Wior- and its managers – Benitez, Saidón and Efkhanian – and, therefore, order the file to be returned to the BCRA to issue a grounded decision on the amounts for the penalties applied to said officers within sixty (60) days, pursuant to the provisions in paragraph XIII; and 2) order each party to pay its court costs, given the complexity of the issues involved and the resolution process (Section 68, paragraph two of the Argentine Civil and Commercial Code of Procedure)".

Given that certain grounds in the judgment issued by the Court of Appeals are questionable and taking into consideration the grounds stated by the judge voting against said judgment, an Extraordinary Appeal in accordance with Section 14 of Law 48 shall be filed before that Court.

2. On February 2, 2018, BACS Banco de Crédito y Securitización S.A. was served notice of summary proceedings in financial matters No. 1539, File No. 100,819/16 pending before the Argentine Central Bank's Department of Contentious Financial Matters, pursuant to Resolution No. 963 dated December 29, 2017 ordering the commencement of summary proceedings against the Bank for late filing (beyond the term set forth in Communication "A" 3700) of the documents related to the appointment of one of its directors during the period spanning from April 9, 2012 to June 21, 2012, date on which the required information was submitted. Accordingly, the Bank is held liable as a legal entity and Mr. Eduardo Elsztain is held liable in his capacity as Chairman. On February 22, 2018, the relevant defenses and arguments were filed, asserting the pertinent rights and exceptions.

**III. Summary proceedings concluded during the fiscal year**

1. On May 10, 2016, the Bank was notified of Resolution No. 219 dated April 22, 2016, handed down by the Superintendent of Financial and Foreign Exchange Institutions in order to commence summary proceedings (Summary Proceedings' File No. 6845) in the terms of Section 8 of the Foreign Exchange Criminal Regime Law No. 19,359 (as signed into law pursuant to Decree No. 480/95) against Banco Hipotecario S.A., its former Manager Mr. Ricardo José Gonzalez and Mrs. Luciana Sabrina Fusco and Liliana Elisabeth Sabella on grounds of allegedly selling foreign currency for the amount of US$ 69,620 agreed upon under a residential mortgage transaction without fulfilling the requirements set forth in the regulations then in effect (Communications "A" 5318, 5322, as supplemented).

On May 9, 2018, the Bank was notified of Resolution No. 192 dated April 26, 2018, whereby the Superintendent of Financial and Foreign Exchange Institutions dismissed the charges filed against Banco Hipotecario S.A., Mr. Ricardo José Gonzalez, Mrs. Luciana Sabrina Fusco and Mrs. Liliana Elisabeth Sabella, involving alleged violations of the foreign exchange rules set out in Resolution No. 219/16. Therefore, the Superintendent of Financial and Foreign Exchange Institutions ordered that File No. 102.780/13 related to Summary Proceedings No. 6845 be closed.

2. On February 19, 2014, the Bank was notified of Resolution No. 209/13 handed down by the Chairman of the Financial Information Unit (UIF), whereby it ordered to commence summary proceedings against the Bank, its directors (Messrs. Eduardo S. Elsztain; Saúl Zang; Ernesto M. Viñes; Jacobo J. Dreizzen; Edgardo L. Fornero; Carlos B. Písula; Gabriel G. Reznik; Pablo D. Vergara del Carril; Mauricio E. Wior; Saul Zang); the Risk and Controlling Manager, Mr. Gustavo D. Efkhanian and the Manager of the Money Laundering Prevention and Control Unit Manager, Mr. Jorge Gimeno. In these proceedings, an investigation is made into the defendants' liability for alleged violation of the provisions of Section 21 of Law 25,246, as amended, and Resolution UIF No. 228/2007 due to certain defaults detected by the Argentine Central Bank in the inspection of the organization and in internal controls implemented for the prevention of money-laundering derived from illegal activities. On March 25, 2014, the relevant defenses and arguments were filed in support of the Bank and the individuals subject to the summary proceedings. By virtue of a Resolution dated July 7, 2016 Gustavo Daniel Efkhanian and Jorge Gimeno were separated from the summary proceedings and the former regular director Marcelo G. Cufré was summoned to appear before the authorities. Then, in a ruling dated January 24, 2017, the Judge in charge of the preliminary criminal investigation summoned former regular directors Clarisa Diana Lifsic de Estol,

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Federico León Bensadón and Diego Luis Bossio. All the directors summoned filed their respective defenses.

The Chairman of the Financial Information Unit handed down Resolution No. 179/18 - notice of which was served upon on August 14, 2018 -, declaring that the statute of limitations for the administrative action brought against the Bank and the other defendants had run off. On October 25, 2018, the provision set up in that respect was reversed.

3. On September 13, 2013, the Bank was notified of Resolution No. 611 handed down by the Superintendent of Financial and Foreign Exchange Institutions, ordering to commence summary proceedings against the Bank, the Organization and Procedures Manager, Mr. Christian Giummarra, and the former Systems Manager, Ms. Aixa Manelli (Summary Proceedings No. 5469 on Foreign Exchange Matters – File 100,082/08) charging them with alleged violation of the foreign exchange laws in selling foreign currency to persons prohibited from trading foreign currency by the Argentine Central Bank. The cumulative amount derived from the alleged violation in the sale of foreign currency is around US$ 39.9 thousand and Euro 1.1 thousand. On October 8, 2013, the Bank was notified of Resolution No. 720 whereby the Superintendent of Financial and Foreign Exchange Institutions ordered the commencement of summary proceedings against Banco Hipotecario, and against Mr. Christian Giummarra and Mrs. Aixa Manelli (Summary Proceedings No. 5529 on Foreign Exchange Matters), charging them with alleged violation of the foreign exchange laws in selling foreign currency to persons prohibited from trading foreign currency by the Argentine Central Bank. The cumulative amount derived from the alleged violation in the sale of foreign currency is around US$ 86 thousand. Summary proceedings No. 5469 and Summary Proceedings No. 5529 (File No. 101.327/10) were joined due to the connection between defendants. Upon completion of the summary proceedings, the BCRA submitted the case for judgment to the Federal Criminal Court in Financial Matters No. 2 (Dr. Pablo Yadarola) - Clerk Office No. 3 (Dr. Fernando Stockfisz).

On August 15, 2018, the intervening Court rendered judgment acquitting Banco Hipotecario S.A., Mr. Christian Pablo Giummarra and Mrs. Aixa Lorena Manelli of the charges raised by the BCRA. The judgment is final.

4. BACS has been notified of Resolution No. 401 dated September 7, 2012 handed down by the Argentine Central Bank's Superintendent of Financial and Exchange Institutions, ordering to start summary proceedings against the Bank and its Chairman, due to the late filing of documentation related to the appointment of the Bank's authorities. On October 9, 2012, the defenses and arguments in support of the Bank's rights were filed. Afterwards, the Bank was notified of Resolution No. 729 dated October 23, 2013, whereby a warning was made to the Bank and its Chairman, pursuant to Section 41, subsection 1 of the Financial Institutions Law.

Pursuant to the above-mentioned Resolution, a fine of Ps. 320 thousand was imposed on the Bank and individuals fines amounting to Ps. 393 thousand were imposed to its directors (Eduardo S. Elsztain and Ernesto M. Viñes). Such amounts were expensed in fiscal year ended December 31, 2016.

BACS and the Directors filed an appeal against Resolution No. 690 in due course. The appeals are pending resolution by Panel IV of the National Court of Appeals in Federal Administrative Contentious Matters in the action styled "BACS BANCO DE CRÉDITO Y SECURITIZACIÓN S.A. ET AL V. BANCO CENTRAL DE LA REPÚBLICA ARGENTINA, in re. Financial Institutions Law No. 21,526, Section 42, Direct Appeal" (Case File No. 51,471/2015). On November 8, 2016, the National Court of Appeals dismissed the appeals raised by the defendants and awarded legal costs against the losing parties.

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### 32.7. Restrictions on the distribution of profits

Regulations issued by the BCRA provide that 20% of the fiscal year's profits, net of potential adjustment from prior years, if applicable, shall be allocated to a legal reserve.

In accordance with the conditions set forth by the BCRA, profits may be distributed, to the extent there are positive results after off-balance deduction of unappropriated retained earnings, legal reserves, reserves provided for in the bylaws and/or special reserves, for the following items: the difference between the book value and the market value of government bonds and/or monetary regulation bonds of the BCRA valued at amortized cost, amounts recorded in assets for lawsuits related to deposits, the result from valuation reviews for property, plant & equipment and intangibles and investment properties, among others.

Furthermore, the Entity shall verify that, after the proposed distribution of profits is carried out, there is a capital margin over risk-weighted assets, in addition to the minimum capital requirements set forth under applicable regulations, paid with level 1 ordinary capital, net of deductibles.

In addition, the technical ratio of minimum capitals shall be met as a requirement to distribute profits.

The technical ratio shall be assessed excluding the aforementioned items from the assets and unappropriated retained earnings. Also, any existent franchises regarding minimum capital requirements, payment and/or position shall not be computed.

As from January 2016, the BCRA provided for a capital preservation margin in addition to the minimum capital requirement equivalent to 3.5% of risk-weighted assets. Said margin shall be fully set up with level 1 ordinary capital, net of deductibles. The distribution of profits shall be limited when the level and composition of the Entity's Regulatory Capital (Responsabilidad Patrimonial Computable) is within the capital preservation margin range.

No prior authorization from the SEFyC shall be required to distribute profits, except when a financial institution is within the capital preservation margin and, to determine the distributable result, the level 1 ordinary capital range, net of deductibles, has not increased by 1 percent point. Said restriction was set forth until March 31, 2020.

In accordance with the provisions in General Resolution No. 593 issued by the CNV, the Shareholders' Meeting considering the annual financial statements shall resolve on a specific allocation of the Entity's accumulated income, whether through effective distribution of dividends, capitalization with delivery of free shares, setting up optional reserves in addition to the Legal Reserve, or a combination thereof.

### 32.8. Capital management and transparent corporate governance policy

Banco Hipotecario assumes that institutions must rely on a Corporate Governance system to provide guidance to the structure and operation of their corporate bodies for the benefit of the institutions, their shareholders, depositors, investors and the community at large.

The Bank sees its Corporate Governance system as a dynamic process that accompanies its evolution, the results of its performance, all new developments in the applicable legislation and all of the market's recommended best practices tailored to the Bank's needs as a legal entity.

The Bank's Corporate Governance is thus governed by currently applicable laws and regulations, its by-laws and the Code of Corporate Governance that address matters related to the Bank's operations, its

Shareholders' Meetings, the Board, the Board's committees, the office of the General Manager, Senior Management and relations with its subsidiaries.

Besides, the Bank relies on guidelines for internal behavior contained in its Code of Ethics enshrining the ethical tenets and principles that are to inspire the behaviors of directors, managers and employees.

**1) The Board of Directors: Structure:**

Pursuant to Law No. 24,855, Section 21 and Banco Hipotecario's by-laws, the Bank's Board of Directors is composed of thirteen regular members elected to hold office for two-year terms by the different share class shareholders' meetings. Directors may be re-elected indefinitely and on a step-wise basis. Each class of shares appoints a number of Alternate Directors that is equal to or less than the number of regular directors that the class is entitled to elect.

Candidates to serve in the Bank's Board must not be within the scope of the inabilities set forth in Law No. 19,550, Section 264 and in Law No. 21,526 Section 10; they must have prior experience in financial activities and it is only when the Argentine Central Bank authorizes it that they can take office.

The Central Bank examines Directors' background information looking for the skills and experience for serving in a Board on the basis of: (i) the nominee's professional history in the financial industry and/or (ii) the nominee's professional credentials and track record in the public or private sector in similar matters or areas that are relevant to the Bank's commercial profile. In addition, the Argentine Central Bank's rules require that at least two thirds of Board members should have proven previous experience in financial activities.

Directors are designated by a majority vote at the shareholders' meetings held by each one of the classes of common stock as follows:

a) Class A shares elect 2 regular Directors and 2 alternates.
b) Class B shares elect 1 regular Director and 1 alternate in so far as Class B shares are representative of 2% of the capital stock issued at the time the respective shareholders' meeting was called.
c) Class C shares elect 1 regular Director and 1 alternate Director in so far as Class C shares are representative of more than 3% of the capital stock issued at the time the respective shareholders' meeting was called.
d) Class D shares are entitled to appoint the rest of the regular and alternate directors (under no circumstances shall this number be less than 9 regular members and at least its equivalent in alternates). When neither Class B or Class C were, for any reason, entitled to appoint and/or participate in the appointment of, directors, any such share class may cast a vote together with Class D shares at the special Class D shareholders' meeting called to elect directors.

The Directors chosen by special Class A and Class B and C shareholders' meetings (in so far as their political rights are exercised by the Argentine Government) and whose appointments are made by the Argentine Executive Branch, may take office and serve as directors on a "non commission" basis, subject to the Argentine Central Bank handing down a resolution without prejudice to the validity of the actions that they undertake during that fiscal year.

Class A shares are held by the Argentine Government (or its nominated trustees) who exercises its political rights; class B shares are held by the Employee Stock Ownership Plan (*Programa de Propiedad Participada*, or "PPP") for the Bank's employees, the political rights in these shares were exercised by the Argentine Government until the passage of Decree 2127/2012 and Resolution 264/2013 issued by the

Ministry of Economy and Public Finance (up and until the shares are conferred to the employees, such rights are exercised by the Argentine Government), class C shares are meant to be initially offered to legal entities engaged in the construction of homes or in real estate activities (up and until the shares are sold, the political rights in these shares are exercised by the Argentine Government) and Class D shares, which are transferred in exclusive, perpetual and absolute ownership to private capital. The subscription or acquisition of Class D shares by the Argentine Government, another legal entity run by the State or by the personnel covered by the PPP does not entail a change of class. Furthermore, on December 12, 2018, the first Meeting for the Creation of the Employee Stock Ownership Plan was held, in which the members of the Executive Committee, one Regular Director and one Alternate Director and finally, one Regular and one Alternate Statutory Auditor were appointed on the Syndication of Shares. Such Program also set forth the specific allocation of shares among its 320 members. All the Meeting's resolutions are contingent upon the final resolution of the Argentine Executive Branch.

To strengthen objective decision making and prevent conflicts of interest, the Board considers it advisable that some of its members should be independent directors. Independent directors must satisfy the requirements imposed by Law No. 19,550, Law 26,831, the CNV's regulations and the Argentine Central Bank's rules.

Besides, under the Argentine Companies Law No. 19,550 and the Bank's By-laws, the Bank's Supervisory Committee consists of a committee made up by 5 regular statutory auditors and 5 alternate statutory auditors appointed as follows: 3 regular statutory auditors and 3 alternate statutory auditors are designated by holders of Class D and C shares who cast votes as members of only one class in the class shareholders' meeting held to that end; one regular statutory auditor and one alternate statutory auditor are designated by Class B shares in so far as said Class represents more than 2% of capital stock and 1 regular statutory auditor and 1 alternate statutory auditor are appointed by Class A shares. When Class B shares fall short of representing 2% of capital stock and Class C shares fall short of representing 3% of capital stock, the Company shall reduce the number of statutory auditors to 3 regular statutory auditors and 3 alternate statutory auditors. Two of these regular statutory auditors and two alternate statutory auditors shall be designated by Class B, C and D shares who, to that end, will cast votes as members of a single class in the relevant class shareholders' meeting and one regular statutory auditor and one alternate statutory auditor being appointed by Class A shares. Given that statutory auditors are appointed by classes of shares, in so far as there are classes of shares, the Company will not be required to elect statutory auditors based on cumulative votes. Statutory auditors shall serve for two-year terms and they shall remain in office until they are replaced and may be indefinitely re-elected. In addition, the powers and duties of statutory auditors are set forth in the Argentine Companies Law, Section 293.

**Board Committees:**

The Bank's by-laws provide for the operation of an Executive Committee. Besides, the Board has approved the creation of various committees made up by directors and entrusted with the following missions:

Executive Committee:

Overall, the Executive Committee is responsible for supervising the Bank's day-to-day businesses and it shall be composed of a minimum of 5 and a maximum of 9 directors elected by Class D shareholders and a number of alternate directors of the same class as determined by the Board.

Audit Committee:

The Audit Committee is in charge of overseeing the reasonable operation of the Bank's internal control environment and the Bank's risk management systems.

Committee for Controlling and Preventing Money Laundering and Terrorism Financing:

This Committee has been entrusted with helping the Bank comply with the obligations imposed by the applicable rules and regulations that seek to prevent these crimes.

Information Technology Committee:

This Committee is responsible for ensuring that the Bank's global IT, informational systems and logical security policies are complied with.

Credit Committee:

This is the committee in charge of establishing the Bank's limits when it comes to credit exposure to its customers.
Personnel Incentives Committee:

This is the committee responsible for making sure that the system of personnel incentives is consistent with the Bank's culture, its objectives, long-term businesses, strategy and control environment as outlined in the applicable policy. Such Committee reports to the Executive Committee.

Risk Management Committee:

The main purpose of this Committee is to monitor the risks to which the entity is exposed, with responsibility, *inter alia*, for: i) monitoring the management of credit, market, liquidity, interest rate and operations risks, taking into account the best risk management practices; and ii) advising the Board of Directors on the design of risk policies and strategies.

Corporate Governance Committee:

Its mission is to supervise the enforcement of the Code of Corporate Governance and adherence to the corporate principles of “full disclosure”, “transparency”, “efficiency”, “investor protection”, “equal treatment amongst investors” and “protection of the entity's stability.” In addition, it will evaluate the Board's actions, the succession planning schemes in force for Senior Management and control compliance with the Bank's internal rules and external regulation.

Ethics Committee:

It has been entrusted with making sure that the Bank relies on the means adequate for the promotion of appropriate decision-making within the framework of its ethical considerations.
Finance Committee:

It is responsible for overseeing compliance with the Bank's solvency and liquidity policies by managing financial risks.

Committee of Social and Institutional Affairs:

This committee has been entrusted with maintaining the Bank's image and positioning in the community at

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large within the framework of enterprise social responsibility.

Committee for the Protection of Users of Financial Services:

This committee watches for the Bank's relationship with users of financial services that purchase its products.

**Managers' Committees:**

Committees convene managers from different areas and/or sectors related to a given topic requiring interaction among them - at the applicable decision level in the line - in order to ensure that the aspects discussed are dealt with and executed in a coordinated manner. In these cases, committees will act within the authorization matrix assigned to their respective competencies, defining, in each case, which members shall be in charge of ensuring execution of the agreed-up courses of action. Where the decision level is higher than that of its members, the committees' conclusions shall be regarded as advice to the management, a committee or the board of directors, as applicable.

The existing Committees are the following: (1) Asset – Liability Committee – ALCO, (2) Retail Banking Pricing and Rates Committee, (3) Investment Committee, (4) SMEs Lending Committee, and (5) Real Estate Committee.

**Senior Management:**

The Bank's General Manager and Senior Management members must have the experience and skills required by financial activities. None of them can be within the scope of the disqualifications and incompatibilities prescribed by Law No. 19,550, Section 264 and by Law No. 21,526, Section 10.

The Bank's General Manager and Senior Management members are liable for compliance with applicable laws and regulations, in particular with Laws No. 24,855, 24,240, 21,526, 19,550 and 26,831, as amended, regulatory and supplementary decrees, the rules of the Argentine Central Bank, the regulations of the CNV and the Bank's by-law.

Senior Management members must act with the loyalty and diligence expected from a good businessman. Those members who fail to perform their duties shall incur joint, several and unlimited liability for the damages arising from their actions or omissions.

Furthermore, Senior Management is responsible for deploying the strategy, abiding by the policies and employing the practices that the Board has approved for managing risks such as credit, liquidity, market, interest rate and operational risk and for implementing and developing written procedures to identify, evaluate, monitor, control and mitigate risks.

**2) Basic share structure:**

The capital stock is represented by 1,500,000,000 shares of a par value of one peso each, divided into Class A, B, C and D shares according to the percentages set forth in the following table. Class A, B and C shares entitle to one vote per share, Class "D" shares, which are owned by the private sector, entitle to three votes per share so long as the Argentine Government owns more than 42% of the capital stock.

Pursuant to the provisions of the Privatization Law and the Bank's bylaws the majority Class "D" shareholders are entitled to elect nine of the thirteen members of the Board of Directors.

The following table shows the current composition of the capital stock, specifying the classes of shares, par value and equity percentage as of December 31, 2018:

| Class | Shares | Face value | Capital stock | Ownership Interest % |
|---|---|---|---|---|
| A | 664,489,424 | 1 | 664,489,424 | 44.30% |
| B | 57,009,279 | 1 | 57,009,279 | 3.80% |
| C | 75,000,000 | 1 | 75,000,000 | 5.00% |
| D | 703,501,297 | 1 | 703,501,297 | 46.90% |
| | 1,500,000,000 | | 1,500,000,000 | 100.00% |

Under Decree 2127/2012 and Resolution 264/2013 issued by the Ministry of Economy and Public Finance, the *Programa de Propiedad Participada* (Employee Stock Ownership Plan) was implemented. Under this plan, in a first stage, out of a total of 75,000,000, 17,990,721 Class B shares were converted into Class A shares, to be allocated among the employees that have withdrawn from the Bank in accordance with the implementation guidelines. Upon delivery to the former employees, the 17,990,721 shares will become Class D shares. As of the date of closing of these financial statements, this process had not yet fully concluded, with the shares allocated to the Bank's current employees being designated as Class B shares, representing the *Programa de Propiedad Participada*. Furthermore, on December 12, 2018, the first Meeting for the Creation of the Employee Stock Ownership Plan was held, in which the members of the Executive Committee, one Regular and one Alternate Director and finally, one Regular and one Alternate Statutory Auditor were appointed on the Syndication of Shares. Such Program also set forth the specific allocation of shares among its 320 members. All the Meeting's resolutions are contingent upon the final resolution of the Argentine Executive Branch.

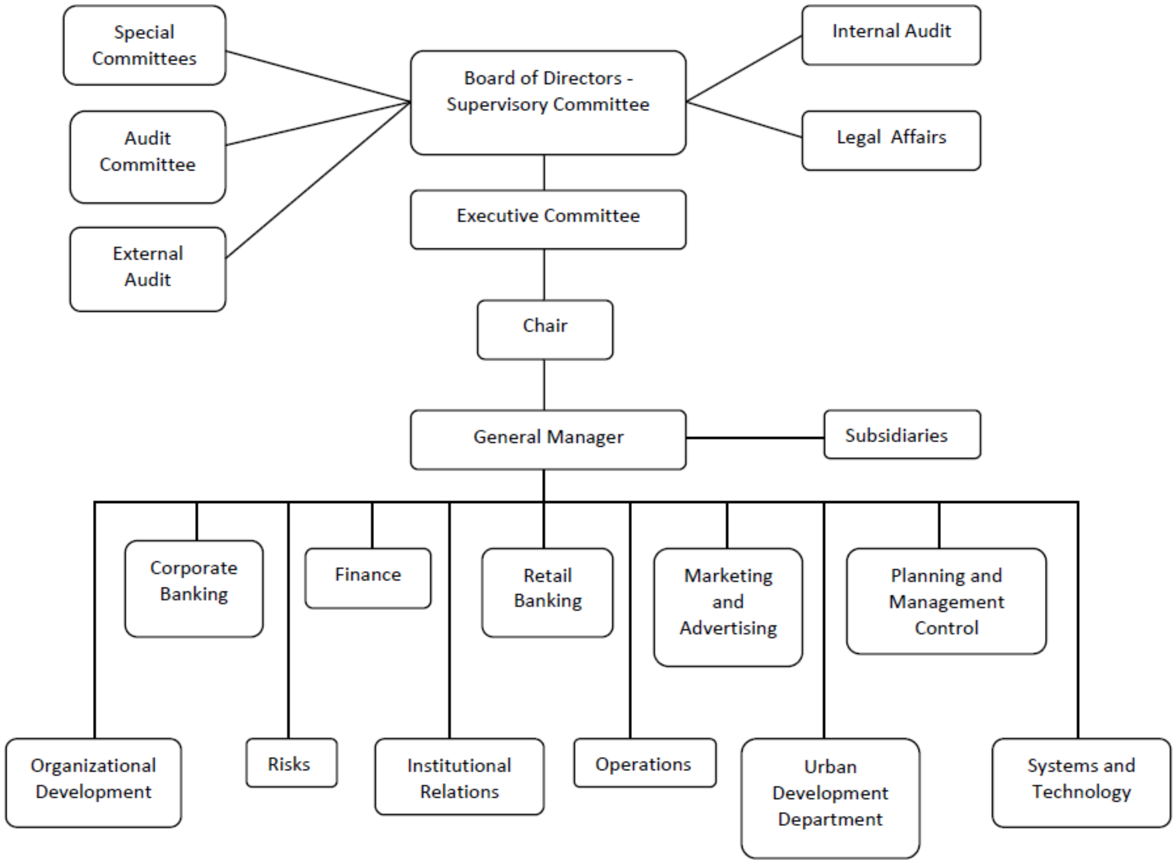
As of the end of these financial statements, the main Class "D" non-governmental shareholders (Tyrus S.A., Ritelco S.A., E-Commerce Latina S.A., Palermo Invest S.A., IRSA Inversiones y Representaciones S.A. and Inversora Bolívar S.A. held 75,000,000, 75,000,000, 74,861,691, 71,653,517, 75,000,000 and 75,000,000 Class D shares, respectively) were holders of an aggregate of 446,515,208 shares representing 29.8% of the Capital Stock.

In addition, the following shareholders are holders of Class D shares: (a) 90,905,000 shares are held by the Option Trustee (relating to non-exercised options) which shall be maintained in the Trust until the disposal thereof pursuant to the instructions received from the Selling Shareholder (Argentine Government). During such period, the political rights attaching thereto shall be exercised by the Trustee of the Trust of the *Fondo Federal de Infraestructura Regional* Assistance Trust (Banco de la Nación Argentina); and (b) 74,037,265 shares are held by ANSES, each of them representing 6.1% and 4.9%, respectively.

**3) Organizational structure:**

Law No. 24,855 declared Banco Hipotecario Nacional to be subject to privatization and transformed it into an Argentine corporation (*Sociedad Anónima*). Banco Hipotecario Nacional was a state-run entity founded on November 15, 1886. By virtue of Law No. 24,855 and its regulatory decrees, Decree 677/1997, Decree 924/1997 and Decree 1394/1998, the Argentine Central Bank's Resolutions No. 271/2007, 64/1998, 362/2001 and Communication "B" 6444, starting on December 24, 1998 the Bank has been doing business as Banco Hipotecario SA operating as a merchant retail bank. The Bank was admitted to the public offering regime by the CNV and then it was also authorized to have its shares listed on and traded in the Buenos Aires Stock Exchange.

The following is the Bank's organizational chart as of the closing of these financial statements:




The Bank controls, either directly or indirectly, the companies comprised in its group of subsidiaries: BHN Sociedad de Inversión SA, engaged in the investment business and responsible for managing ownership interests in other companies; BHN Vida SA, an insurance company that carries life insurance; BHN Seguros Generales SA, which provides insurance against fire and damages to real property; BACS Banco de Crédito y Securitización SA, a non-depository merchant bank; BH Valores SA, engaged in stock brokerage activities; and Tarshop SA, an issuer of credit cards.

**4) Information concerning financial incentives to personnel:**

1 - The Personnel Incentives Committee is made up of 3 Directors and the highest officer in the organizational development area. At least one of the Directors in the Committee must have experience in the subject. The Directors shall remain in the Committee for a term of at least 2 years, always provided that their tenure as Directors does not expire earlier. Such term may be extended in each case only upon express decision of the Board of Directors. The term in such office shall not overlap, so that the

Committee is always composed of one Director with experience in the subject. The appointment of the members of the Personnel Incentives Committee, as well as any changes in its membership, whether by reason of resignation, leave of absence, addition or replacement of its members or any other cause, shall be notified by the Company to the Argentine Central Bank and the CNV within the terms set forth in the applicable laws.

The Committee's main objective is to monitor the incentive system, and it is responsible for establishing the policies and practices for providing financial incentives to the Bank's personnel involved in risk management (be it credit, liquidity, market, interest rate and/or operational risk), adjusting decisions to the exposure to these risks assumed by the Company according to the liquidity and capital requirements at stake, both on current and future potential risks and/or risks to the entity's reputation and whereby the economic incentives to the members of the organization should be tied to the contribution by each individual and by each business unit to the Company's performance.

2 - The Design is based on the principle that all employees should receive a total compensation that is commensurate with tasks performed, whose internal relative value reflects the responsibilities of the position and the employee's performance, and whose external comparative value is competitive with comparable salaries prevailing in the market, ensuring that internal equity and external competitive criteria are satisfied, by reviewing and managing compensation packages so as to obtain a salary structure aligned to the business needs and possibilities, framed in a set of rules that foster individual progress based on each employee's potential and the Bank's possibilities, so as to ensure an environment that fosters individual development and the organization's advancement.

3 - Personnel financial incentives are adjusted by directly relating each individual contribution to the Organization's performance, with a view to achieving the targets set by the Company's Board of Directors; and the results obtained through the duties that are being compensated are framed into the risk exposure assumed by the Board of Directors.

4 - The bank measures its performance through indicators associated with its strategic environments: business, sustainability, customers, employees and organizational intelligence.

5 - Pursuant to its long-term incentive and performance policy, the Bank establishes a direct relationship between each employee's individual contribution and the Organization's goals, with a view to fulfilling the targets set by the Company's Board of Directors and obtaining sustainable profits, through the following actions, *inter alia*.

- Clearly communicating the corporate targets set by the Board of Directors for the following year and in the long term;
- Strengthening and clarifying the relationship between performance and incentives;
- Aligning incentives with the key factors of success for the Organization and rewarding actions that add value, privileging costs and efficiency;
- Fostering cooperation and team work; Causing the various departments to work hand in hand toward the achievement of common targets consistent with the Organization's strategic plans;
- Rewarding the attainment of quantitative, specific, measurable and controllable objectives; and
- Achieving better clarity and objectivity upon measuring individual and group performance.

6 - The various variable compensation items are: Commissions, Bonus and Profit. Payments are recorded in the salary receipts and are made in cash. Banco Hipotecario S.A. sets the criteria that regulate the Incentive Policy with a view to integrating individual and group efforts, seeing that internal relative value reflects the responsibilities and risks associated with each employee's position and performance and that

its external comparative value is competitive in the salary market. Performance management measures the employees' performance in terms of the results attained with respect to the goals set and the qualifications required for each position.

The Bank has a system of financial incentives for personnel, consistent with its culture and objectives, which is aligned with the other managing tools in order to achieve a prudent assumption of both current and future risks.

The Committee of Personnel Incentives assesses individual performance in compliance with targets imposed on their functions and the risk assumed by personnel on behalf of the entity, seeing that the total funds allocated to their payment are consistent with the results obtained during the fiscal year to be remunerated.

**5) Policy related to business conduct and/or ethics code, as well as the applicable governance policy or structure:**

The Bank has internal rules of conduct (Code of Ethics) that enshrine the ethical tenets and principles that govern interaction amongst directors and employees, within a framework of respect for the law and for the rules that govern the banking industry.

Additionally, the Bank adheres to the Code of Banking Practices, which has been prepared with the involvement of all of Argentina's associations in the industry of banking and financial institutions as a self-regulatory initiative that seeks to promote best banking practices in Argentina and, in turn, the Bank adheres to the Investor Protection Code of Mercado Abierto Electrónico and through BH Valores S.A., to the Merval's Investor Protection Code.

The Bank adhered to those Codes in the belief that its adoption will help strengthen the rights of clients and increase transparency in the information provided to them by financial institutions.

The referred Code of Ethics and the Code of Banking Practices are an integral part of the Bank's and its subsidiaries' Corporate Governance systems.

**6) Conflicts of interest:**

The decisions and actions of the Bank's members, managers, legal representatives and employees must always aspire to further the Bank's and its customers' best interests and they should never stem from personal considerations. Neither family and friendship relationships nor expectations from current or potential suppliers, contractors, competitors or regulators must affect independence and sound judgment to safeguard the Bank's interests.

**7) Complex structures:**

In the corporate structure of Banco Hipotecario and its subsidiaries, the controlling company is at the core of the main financial intermediation activities and relies on other economic units for the businesses and supplementary services of non-depository merchant banks, insurance companies, stock brokers and the issuance of Shopping credit cards, whilst maintaining and reinforcing any possible synergies amongst its different customers.

None of the group companies has affiliates or subsidiaries abroad, nor are they engaged in off-shore transactions.

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The organization does not employ complex structures or trusts disguising the development of certain activities.

The involvement of each company as trustor, trustee or beneficiary is restricted to the sphere of financial trusts whose securities are generally admitted to public offering. The most relevant details surrounding these trusts, as well as the investments in their certificates and securities are disclosed in the separate financial statements and in the Bank’s consolidated financial statements.

## 33. SUBSEQUENT EVENTS

Tarshop

On January 16, 2019, the Board of Directors of Tarshop S.A. approved the assignment to the Bank of the contractual position on credit card issuance contracts and contracts related to the operation of that business timely originated by Tarshop. The transaction is carried out for the purpose of optimizing Tarshop's operations and allowing it to focus on granting personal loans to improve profitability.

On February 14, 2019, the acquisition of 20% of Tarshop S.A.'s share capital from IRSA Propiedades Comerciales S.A. was completed, through the transfer of 100 thousand dollars. In addition, the transaction provides for a variable contribution to which IRSA Propiedades Comerciales S.A. shall only be entitled to if Banco Hipotecario sells all or part of the company to a non-affiliated third party within 2 years.

With this acquisition, the Bank becomes the holder of 100% of Tarshop's share capital.

Issuance of Series I negotiable obligations

On February 15, 2018, Banco Hipotecario issued Series I negotiable obligations with the following characteristics:

| | **Issue amount** (in thousands) | **Issue date** | **Maturity date** | **Annual interest rate** |
|---|---|---|---|---|
| Series I | 3,570,141 | 02/15/2019 | 02/15/2021 | Badlar + 6.15% |

The amount subscribed in cash amounted to Ps. 1,726,795 thousand and in kind through delivery of existing negotiable obligations amounted to Ps. 1,843,346 thousand.

## 34. RUBRICATION OF BOOKS

At the date of these financial statements, the transactions conducted by the Bank had been recorded in the rubricated books, as called for by the regulations in force.

## 35. FINANCIAL STATEMENTS PUBLICATION

In line with the guidelines of Communication "A" 760, the prior involvement of the Argentine Central Bank is not required in order to publish these financial statements.

The document drafted pursuant to the provisions of Communication “A” 5394 issued by the Argentine Central Bank discloses information on Banco Hipotecario S.A.’s regulatory capital structure and sufficiency, risk exposure and management, on a stand-alone basis and in consolidated form with its subsidiaries.

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Pursuant to the law, the referred document is posted on the Bank's website (http://www.hipotecario.com.ar), by accessing the following link: "Market Discipline – Minimum Disclosure Requirements."

## 36. PERSONAL ASSETS TAX

Law No. 25,585 introduced changes in the treatment afforded to the shareholdings and ownership interests in the capital stock of companies governed by Law No. 19,550, effective since the 2002 tax period.

One of these changes was the addition of Section 25.1 to the Personal Assets Law, which levies a tax on the above mentioned shareholdings held by individuals domiciled and undivided estates established in Argentina and foreign individuals, undivided estates and legal entities. The Bank is responsible for acting as substitute taxpayer of Personal Assets Tax.

In the framework of Law No. 27,260, the Bank obtained a benefit on grounds of good tax performance. This benefit exempts shareholdings and ownership interests in the Bank's capital stock from Personal Assets Tax, and it applies to the 2016, 2017 and 2018 tax periods.

BANCO Hipotecario

**SCHEDULE B – CONSOLIDATED CLASSIFICATION OF LOANS AND OTHER FINANCING ARRANGEMENTS ACCORDING TO LOANS AND GUARANTEES RECEIVED**

For the fiscal year ended 12/31/2018,
comparative as of 12/31/2017 and 01/01/2017
In thousands of Argentine Pesos

En miles de pesos

| Commercial Portfolio | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| **Normal situation** | **15,500,340** | **14,121,260** | **11,418,651** |
| With "A" preferred collateral and counterguarantees | 565,375 | 616,354 | 180,885 |
| With "B" preferred collateral and counterguarantees | 1,966,708 | 1,715,092 | 1,109,545 |
| Without preferred collateral and counterguarantees | 12,968,257 | 11,789,814 | 10,128,221 |
| **With special follow-up** | **1,106,223** | **36,756** | **386** |
| **Under observation** | **1,099,978** | **36,756** | **386** |
| With "A" preferred collateral and counterguarantees | 23,331 | 291 | - |
| With "B" preferred collateral and counterguarantees | 202,631 | 23,187 | - |
| Without preferred collateral and counterguarantees | 874,016 | 13,278 | 386 |
| **Under negotiation or with refinancing agreements** | **6,245** | **-** | **-** |
| Without preferred collateral and counterguarantees | 6,245 | - | - |
| **Troubled** | **88,053** | **556** | **992** |
| With "A" preferred collateral and counterguarantees | 15,259 | - | - |
| With "B" preferred collateral and counterguarantees | 1,646 | - | - |
| Without preferred collateral and counterguarantees | 71,148 | 556 | 992 |
| **With high risk of insolvency** | **75,139** | **13,315** | **5,090** |
| With "A" preferred collateral and counterguarantees | 14,372 | - | - |
| With "B" preferred collateral and counterguarantees | 2,224 | 197 | 1,229 |
| Without preferred collateral and counterguarantees | 58,543 | 13,118 | 3,861 |
| **Uncollectible** | **687** | **3,334** | **19,892** |
| With "B" preferred collateral and counterguarantees | 96 | - | 93 |
| Without preferred collateral and counterguarantees | 591 | 3,334 | 19,799 |
| **Total commercial portfolio** | **16,770,442** | **14,175,221** | **11,445,011** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

………………………..(Partner)
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## SCHEDULE B – CONSOLIDATED CLASSIFICATION OF LOANS AND OTHER FINANCING ARRANGEMENTS ACCORDING TO LOANS AND GUARANTEES RECEIVED

For the fiscal year ended 12/31/2018,
comparative as of 12/31/2017 and 01/01/2017
In thousands of Argentine Pesos

En miles de pesos

| Consumer and housing portfolio | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| **Normal situation** | **27,101,092** | **26,104,184** | **22,256,507** |
| With "A" preferred collateral and counterguarantees | - | 497 | - |
| With "B" preferred collateral and counterguarantees | 4,956,612 | 3,340,336 | 2,698,526 |
| Without preferred collateral and counterguarantees | 22,144,480 | 22,763,351 | 19,557,981 |
| **Low risk** | **1,941,552** | **891,614** | **660,076** |
| With "B" preferred collateral and counterguarantees | 73,089 | 46,284 | 43,656 |
| Without preferred collateral and counterguarantees | 1,868,463 | 845,330 | 616,420 |
| **Mid risk** | **1,354,238** | **603,028** | **395,089** |
| With "B" collateral and counterguarantees | 24,966 | 12,442 | 11,074 |
| Without preferred collateral and counterguarantees | 1,329,272 | 590,586 | 384,015 |
| **High risk** | **1,149,599** | **707,767** | **437,979** |
| With "B" preferred collateral and counterguarantees | 13,325 | 9,939 | 7,994 |
| Without preferred collateral and counterguarantees | 1,136,274 | 697,828 | 429,985 |
| **Uncollectible** | **266,330** | **289,922** | **77,317** |
| With "B" preferred collateral and counterguarantees | 24,443 | 18,115 | 7,996 |
| Without preferred collateral and counterguarantees | 241,887 | 271,807 | 69,321 |
| **Uncollectible for technical reasons** | **167** | **177** | **269** |
| With "B" preferred collateral and counterguarantees | 24 | 41 | 58 |
| Without preferred collateral and counterguarantees | 143 | 136 | 211 |
| **Total consumer and housing portfolio** | **31,812,978** | **28,596,692** | **23,827,237** |
| | | | |
| **General total** (1) | **48,583,420** | **42,771,913** | **35,272,248** |

(1) Reconciliation between Schedule B and the Balance Sheet:

| | | | |
|---|---|---|---|
| **Loans and other financing arrangements** | **43,566,664** | **39,344,559** | **31,668,960** |
| **Other debt securities** | **1,700,018** | **618,151** | **700,958** |
| **Off-balance sheet items** | **221,563** | **205,133** | **230,002** |
| plus allowances | 2,071,525 | 1,383,355 | 854,624 |
| plus IFRS adjustments not computable for ESD | (22,607) | 117,935 | 216,597 |
| less items not computable for ESD | (285,741) | (208,164) | (188,312) |
| less government securities at amortized cost | 1,331,998 | 1,310,944 | 1,789,419 |
| **TOTAL** | **48,583,420** | **42,771,913** | **35,272,248** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………(Partner)
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## SCHEDULE C – CONSOLIDATED CONCENTRATION OF LOANS AND OTHER FINANCING ARRANGEMENTS

For the fiscal year ended 12/31/2018, comparative as of 12/31/2017 and 01/01/2017

| Number of customers | FINANCING | | | | | |
|---|---|---|---|---|---|---|
| | 12/31/2018 | | 12/31/2017 | | 01/01/2017 | |
| | Debt balance | % of total portfolio | Debt balance | % of total portfolio | Debt balance | % of total portfolio |
| 10 largest customers | 5,322,887 | 10,96% | 3,725,053 | 8,71% | 3,552,273 | 10.07% |
| 50 following largest customers | 5,705,431 | 11,74% | 5,666,592 | 13,25% | 3,217,416 | 9.12% |
| 100 following largest customers | 891,851 | 1,84% | 1,581,051 | 3,70% | 1,315,559 | 3.73% |
| Rest of customers | 36,663,251 | 75,46% | 31,799,217 | 74,34% | 27,187,000 | 77.08% |
| **Total (1)** | **48,583,420** | **100,00%** | **42,771,913** | **100,00%** | **35,272,248** | **100.00%** |

(1) Reconciliation between Schedule C and the Balance Sheet

| | | | |
|---|---|---|---|
| **Loans and other financing arrangements** | **43,566,664** | **39,344,559** | **31,668,960** |
| **Other debt securities** | **1,700,018** | **618,151** | **700,958** |
| **Off-balance sheet items** | **221,563** | **205,133** | **230,002** |
| plus allowances | 2,071,525 | 1,383,355 | 854,624 |
| plus IFRS adjustments not computable for ESD | (22,607) | 117,935 | 216,597 |
| less items not computable for ESD | (285,741) | (208,164) | (188,312) |
| less government securities at amortized cost | 1,331,998 | 1,310,944 | 1,789,419 |
| **TOTAL** | **48,583,420** | **42,771,913** | **35,272,248** |

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General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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For the Supervisory Committee

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**SCHEDULE D – CONSOLIDATED BREAKDOWN OF LOANS AND OTHER FINANCING ARRANGEMENTS BY MATURITY DATES**

For the fiscal year ended 12/31/2018

In thousands of Argentine Pesos

| Item | Past due portfolio | Remaining terms to maturity | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 1 month | 3 months | 6 months | 12 months | 24 months | more than 24 months | Total |
| Non-financial public sector | - | 3,549 | 10,690 | 15,576 | - | - | - | 29,815 |
| Financial sector | 26,231 | 301,267 | 76,659 | 9,944 | 53,754 | 60,464 | 1,199 | 529,518 |
| Non-financial private sector and foreign residents | 3,382,701 | 14,852,042 | 4,336,355 | 3,664,364 | 4,725,953 | 5,562,042 | 10,010,607 | 46,534,064 |
| **Total** | **3,408,932** | **15,156,858** | **4,423,704** | **3,689,884** | **4,779,707** | **5,622,506** | **10,011,806** | **47,093,397** |

The decrease in future contractual flows is exposed, including interest and accessories to be accrued until maturity of not discounted agreements.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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For the Supervisory Committee

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**SCHEDULE F – CONSOLIDATED CHANGES IN BANK PREMISES AND EQUIPMENT**
For the fiscal year ended 12/31/2018
In thousands of Argentine Pesos

| Item | Acquisition cost at the beginning of the fiscal year | Estimated useful life in years | Additions | Withdrawals | Impairment | | Depreciation | | | | Residual value at fiscal year-end |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Losses | Reversals | Accumulated | Withdrawal | For the fiscal year | At closing | |
| **Measured at cost** | | | | | | | | | | | |
| - Real estate properties | 1,191,595 | 50 | - | - | - | - | (16,508) | - | (21,502) | (38,010) | 1,153,585 |
| - Furniture and facilities | 118,109 | 10 | 24,730 | (546) | - | - | (52,354) | 427 | (10,982) | (62,909) | 79,384 |
| - Machinery and equipment | 403,534 | 5 | 89,814 | - | - | - | (260,621) | - | (75,206) | (335,827) | 157,521 |
| - Vehicles | 482 | 5 | - | - | - | - | (193) | - | (96) | (289) | 193 |
| - Sundry | 81,188 | 5 | 11,365 | - | - | - | (63,912) | - | (10,608) | (74,520) | 18,033 |
| - Works in progress (1) | 1,418,308 | - | 1,842,529 | (2,881,092) | (291,029) | - | - | - | - | - | 88,716 |
| **Total bank premises and equipment** | **3,213,216** | | **1,968,438** | **(2,881,638)** | **(291,029)** | **-** | **(393,588)** | **427** | **(118,394)** | **(511,555)** | **1,497,432** |

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General Manager

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**SCHEDULE F – CONSOLIDATED CHANGES IN INVESTMENT PROPERTY**
For the fiscal year ended 12/31/2018
In thousands of Argentine Pesos

| Item | Acquisition cost at the beginning of the fiscal year | Net income/loss from measurement at FV | Additions | Withdrawals | Residual value as of fiscal year-end |
|---|---|---|---|---|---|
| **Measurement at fair value** | | | | | |
| - Leased real estate properties | 174,777 | 188,266 | - | - | 363,043 |
| - Other investment property | - | - | 2,881,092 | - | 2,881,092 |
| **Total investment property** | **174,777** | **188,266** | **2,881,092** | **-** | **3,244,135** |

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BANCO Hipotecario

# SCHEDULE G – CONSOLIDATED CHANGES IN INTANGIBLE ASSETS

For the fiscal year ended 12/31/2018

In thousands of Argentine Pesos

| Item | Acquisition cost at the beginning of the fiscal year | Total estimated useful life in year | Additions | Withdrawals | Impairment | | Depreciation | | | | Residual value as of fiscal year-end |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Losses | Reversals | Accumulated | Withdrawal | For the fiscal year | At closing | |
| **Measurement at cost** | | | | | | | | | | | |
| Development expenses of own systems | - | - | - | - | - | - | - | - | - | - | - |
| Other intangible assets | 371.940 | 5 | 51.384 | (1.137) | - | - | (246.387) | - | (30.532) | (276.919) | 145.268 |
| **Total intangible assets** | **371.940** | | **51.384** | **(1.137)** | **-** | **-** | **(246.387)** | **-** | **(30.532)** | **(276.919)** | **145.268** |

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For the Supervisory Committee

………………………..(Partner)
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BANCO Hipotecario

**SCHEDULE H – CONSOLIDATED CONCENTRATION OF DEPOSITS**
For the fiscal year ended 12/31/2018, comparative as of 12/31/2017 and 01/01/2017
In thousands of Argentine Pesos

| Number of customers | DEPOSITS | | | | | |
|---|---|---|---|---|---|---|
| | 12/31/2018 | | 12/31/2017 | | 01/01/2017 | |
| | Debt balance | % of total portfolio | Debt balance | % of total portfolio | Debt balance | % of total portfolio |
| 10 largest customers | 4,326,931 | 14,76% | 3,726,490 | 17.91% | 4,376,170 | 24.67% |
| 50 following largest customers | 4,488,781 | 15,32% | 2,097,891 | 10.08% | 2,616,398 | 14.75% |
| 100 following largest customers | 1,464,235 | 5,00% | 851,690 | 4.09% | 1,003,393 | 5.66% |
| Rest of customers | 19,027,633 | 64,92% | 14,127,692 | 67.92% | 9,740,522 | 54.92% |
| **TOTAL** | **29,307,580** | **100,00%** | **20,803,763** | **100.00%** | **17,736,483** | **100.00%** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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For the Supervisory Committee

………………………..(Partner)
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**SCHEDULE I – CONSOLIDATED BREAKDOWN OF FINANCIAL LIABILITIES BY MATURITY DATES**

For the fiscal year ended 12/31/2018

In thousands of Argentine Pesos

| Item | Remaining terms to maturity | | | | | | Total |
|---|---|---|---|---|---|---|---|
| | 1 month | 3 months | 6 months | 12 months | 24 months | more than 24 months | |
| **Deposits** | | | | | | | |
| Non-financial public sector | 2,841,396 | 826,887 | 43,616 | - | - | - | 3,711,899 |
| Financial sector | 1,509 | - | - | - | - | - | 1,509 |
| Non-financial private sector and foreign residents | 19,431,178 | 5,108,949 | 825,339 | 374,041 | 327,275 | 7,928 | 26,074,710 |
| **Liabilities at fair value through profit or loss** | - | - | 751,511 | - | - | - | 751,511 |
| **Derivative instruments** | 136,281 | - | - | - | - | - | 136,281 |
| **Repo transactions** | | | | | | | |
| Other financial institutions | 65,256 | - | - | - | - | - | 65,256 |
| **Other financial liabilities** | 5,105,787 | 123,049 | 66,102 | 119,182 | 237,494 | 1,910,011 | 7,561,625 |
| **Loans from the BCRA and other financial institutions** | 272,052 | 172,706 | 243,488 | - | - | - | 688,246 |
| **Negotiable obligations issued** | 961,764 | 2,185,173 | 2,943,823 | 8,695,797 | 21,441,316 | 12,444,999 | 48,672,872 |
| TOTAL | **28,815,223** | **8,416,764** | **4,873,879** | **9,189,020** | **22,006,085** | **14,362,938** | **87,663,909** |

The decrease in future contractual flows is exposed, including interest and accessories to be accrued until maturity of not discounted agreements.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………(Partner)
C.P.C.E.C.A.B.A. Volume 1 – Page 17

## SCHEDULE P – CATEGORIES OF CONSOLIDATED FINANCIAL ASSETS AND LIABILITIES

For the fiscal year ended 12/31/2018

In thousands of Argentine Pesos

| Description | Amortized cost | Fair value through OCI | Fair value through profit or loss | | Category of fair value | | |
|---|---|---|---|---|---|---|---|
| | | | Originally designated or pursuant to item 6.7.1 under IFRS 9 | Statutory measurement | Level 1 | Level 2 | Level 3 |
| **FINANCIAL ASSETS** | | | | | | | |
| **Cash and bank deposits** | **8,832,786** | - | - | - | - | - | - |
| Cash | 1,393,427 | - | - | - | - | - | - |
| Financial institutions and correspondents | 6,571,467 | - | - | - | - | - | - |
| Other | 867,892 | - | - | - | - | - | - |
| **Debt securities at fair value through profit or loss** | - | - | **19,287,877** | - | 19,123,187 | 164,690 | - |
| **Derivative instruments** | - | - | - | **69,478** | - | 69,478 | - |
| **Repo transactions** | **589,474** | - | - | - | - | - | - |
| Argentine Central Bank | 473,559 | - | - | - | - | - | - |
| Other financial institutions | 115,915 | - | - | - | - | - | - |
| **Other financial assets** | **2,054,834** | - | **256,263** | - | 256,263 | - | - |
| **Loans and other financing arrangements** | **43,566,664** | **-** | **-** | **-** | **-** | **-** | **-** |
| Non-financial public sector | 29,146 | - | - | - | - | - | - |
| Other financial institutions | 415,506 | - | - | - | - | - | - |
| Non-financial private sector and foreign residents | 43,122,012 | - | - | - | - | - | - |
| Overdraft facilities | 595,096 | - | - | - | - | - | - |
| Notes | 303,493 | - | - | - | - | - | - |
| Mortgage loans | 5,598,867 | - | - | - | - | - | - |
| Pledge loans | 209,348 | - | - | - | - | - | - |
| Consumer loans | 8,610,474 | - | - | - | - | - | - |
| Credit cards | 18,241,934 | - | - | - | - | - | - |
| Financial leases | 122,322 | - | - | - | - | - | - |
| Other | 9,440,478 | - | - | - | - | - | - |
| **Other debt securities** | **1,700,018** | - | - | - | - | - | - |
| **Financial assets pledged as collateral** | **1,108,298** | - | **898,816** | - | 898,816 | - | - |
| **Investments in equity instruments** | - | - | **187,475** | - | 176,165 | 11,310 | - |
| **TOTAL FINANCIAL ASSETS** | **57,852,074** | **-** | **20,630,431** | **69,478** | **20,454,431** | **245,478** | **-** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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**Ricardo Flammini**
For the Supervisory Committee

……………………….(Partner)
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**SCHEDULE P – CATEGORIES OF CONSOLIDATED FINANCIAL ASSETS AND LIABILITIES**
For the fiscal year ended 12/31/2018
In thousands of Argentine Pesos

| Description | Amortized cost | Fair value through OCI | Fair value through profit or loss | | Category of fair value | | |
|---|---|---|---|---|---|---|---|
| | | | Originally designated or pursuant to item 6.7.1 under IFRS 9 | Statutory measurement | Level 1 | Level 2 | Level 3 |
| **FINANCIAL LIABILITIES** | | | | | | | |
| **Deposits** | **29,307,580** | - | - | - | - | - | - |
| Non-financial public sector | 3,625,037 | - | - | - | - | - | - |
| Financial sector | 1,508 | - | - | - | - | - | - |
| Non-financial private sector and foreign residents | 25,681,035 | - | - | - | - | - | - |
| Checking accounts | 2,920,638 | - | - | - | - | - | - |
| Savings accounts | 7,085,304 | - | - | - | - | - | - |
| Time deposits and term investments | 14,800,124 | - | - | - | - | - | - |
| Other | 874,969 | - | - | - | - | - | - |
| **Liabilities at fair value through profit or loss** | - | - | **751,511** | - | 751,511 | - | - |
| **Derivative instruments** | - | - | - | **136,281** | - | 136,281 | - |
| **Repo transactions** | **65,188** | - | - | - | - | - | - |
| Other financial institutions | 65,188 | - | - | - | - | - | - |
| **Other financial liabilities** | **7,547,776** | - | - | - | - | - | - |
| **Loans from the BCRA and other financial institutions** | **657,696** | - | - | - | - | - | - |
| **Negotiable obligations issued** | **31,660,467** | - | - | - | - | - | - |
| **Subordinated negotiable obligations** | - | - | - | - | - | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **69,238,707** | **-** | **751,511** | **136,281** | **751,511** | **136,281** | **-** |

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………………………..(Partner)
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## SCHEDULE Q – BREAKDOWN OF CONSOLIDATED RESULTS

For the fiscal year ended 12/31/2018

In thousands of Argentine Pesos

| Items | 12/31/2018 | | | 12/31/2017 |
|---|---|---|---|---|
| | Net financial income/(expense) | | OCI | |
| | Originally designated or pursuant to item 6.7.1 under IFRS 9 | Statutory measurement | | |
| **<u>Due to measurement of financial assets at fair value through profit or loss</u>** | | | | |
| Income from government securities | 5,671,806 | - | - | 1,783,844 |
| Income from corporate securities | 7,926 | - | - | 2,132 |
| Income/(loss) from derivative financial instruments | | | | |
| Forward transactions | - | 26,183 | - | (273,472) |
| Interest rate swaps | - | - | - | 3,374 |
| Due to investments in Equity Instruments | 224,061 | - | - | 284,386 |
| **TOTAL** | **5,903,793** | **26,183** | **-** | **1,800,264** |

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## SCHEDULE Q – BREAKDOWN OF CONSOLIDATED RESULTS

For the fiscal year ended 12/31/2018

In thousands of Argentine Pesos

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Interest and adjustments due to application of effective interest rate of financial assets measured at amortized cost** | **Financial income/(expense)** | |
| **Interest income** | | |
| Cash and bank deposits | 16,244 | 412 |
| Government securities | 145,367 | 83,009 |
| Other financial assets | 371,054 | 159,425 |
| Loans and other financing arrangements | | |
| To the Financial Sector | 133,436 | 105,052 |
| Overdraft facilities | 308,177 | 155,007 |
| Promissory notes | 171,095 | 186,510 |
| Mortgage loans | 1,417,164 | 716,436 |
| Pledge loans | 88,659 | 112,981 |
| Consumer loans | 3,291,680 | 2,324,732 |
| Credit cards | 7,064,667 | 5,041,217 |
| Financial leases | 38,555 | 38,336 |
| Other | 1,722,671 | 953,549 |
| Repo Transactions | | |
| Argentine Central Bank | 58,550 | - |
| Other financial institutions | 69,909 | 374,033 |
| **TOTAL** | **14,897,228** | **10,250,699** |
| **Interest expense** | | |
| Deposits | | |
| Checking accounts | (1,015,635) | (122,156) |
| Savings accounts | (9,050) | (4,953) |
| Time deposits and term investments | (3,733,281) | (2,223,681) |
| Loans from the BCRA and other financial institutions | (234,195) | (161,406) |
| Repo Transactions | | |
| Argentine Central Bank | (3,867) | (74,127) |
| Other Financial Institutions | (112,979) | (1,352) |
| Other financial liabilities | (264,041) | (163,230) |
| Negotiable Obligations issued | (7,359,936) | (3,497,221) |
| Subordinated negotiable obligations | - | (4,321) |
| **TOTAL** | **(12,732,984)** | **(6,252,447)** |
| **Commission income** | | |
| Linked to liabilities | 101,780 | 251,760 |
| Linked to loans | 4,021,308 | 3,315,458 |
| Linked to securities | 28,934 | 30,594 |
| Other | 598 | 1,621 |
| **TOTAL** | **4,152,620** | **3,599,433** |
| **Commission expense** | | |
| Other | (684,855) | (599,506) |
| **TOTAL** | **(684,855)** | **(599,506)** |

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**Manuel J.L. Herrera Grazioli**
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For the Supervisory Committee

………………………..(Partner)
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## SCHEDULE R – CONSOLIDATED CORRECTION OF VALUE DUE TO LOSSES – PROVISION FOR LOAN LOSSES

For the fiscal year ended 12/31/2018, comparative as of 12/31/2017 and 01/01/2017

In thousands of Argentine Pesos

| Item | Opening balances | Increases | Decreases | | Balance as of 12/31/2018 | Balance as of 12/31/2017 | Balance as of 01/01/2017 |
|---|---|---|---|---|---|---|---|
| | | | Reversals | Allocations | | | |
| **Other financial assets** | - | **8,472** | - | - | **8,472** | - | - |
| **Loans and other financing arrangements** | | | | | | | |
| Non-financial private sector and foreign residents | **1,342,626** | **1,812,768** | **33,584** | **1,082,053** | **2,039,757** | **1,342,626** | **837,089** |
| Overdraft facilities | 95,496 | 195,549 | 15,952 | 6,047 | 269,046 | 95,496 | 62,938 |
| Promissory notes | 6,447 | - | - | 4,531 | 1,916 | 6,447 | 5,426 |
| Mortgage loans | 33,105 | 27,213 | 2,622 | 1,496 | 56,200 | 33,105 | 27,674 |
| Consumer loans | 327,539 | 583,420 | 11,992 | 320,223 | 578,744 | 327,539 | 173,496 |
| Credit cards | 806,800 | 990,366 | 3,018 | 749,572 | 1,044,576 | 806,800 | 485,245 |
| Financial leases | 1,559 | - | - | 184 | 1,375 | 1,559 | 2,906 |
| Other | 71,680 | 16,220 | - | - | 87,900 | 71,680 | 79,404 |
| **Corporate securities** | **25,865** | **7,633** | - | **2,157** | **31,341** | **25,865** | **54,846** |
| **TOTAL PROVISIONS** | **1,368,491** | **1,828,873** | **33,584** | **1,084,210** | **2,079,570** | **1,368,491** | **891,935** |

**Lorena C. Morchón**
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## SEPARATE FINANCIAL STATEMENTS
## AS OF DECEMBER 31, 2018

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BANCO Hipotecario

## SEPARATE BALANCE SHEET

For the fiscal year ended 12/31/2018

Comparative as of 12/31/2017 and 01/01/2017

In thousands of Argentine Pesos

| ITEM | NOTES | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Cash and bank deposits (Schedule P)** | 5 and 6 | **7,952,630** | **3,645,301** | **7,099,631** |
| Cash | | 1,378,117 | 904,482 | 714,529 |
| Financial institutions and correspondents | | 5,706,621 | 2,600,012 | 6,385,102 |
| - Argentine Central Bank (B.C.R.A.) | | 4,710,310 | 2,407,033 | 5,332,648 |
| - Other domestic and foreign institutions | | 996,311 | 192,979 | 1,052,454 |
| Other | | 867,892 | 140,807 | - |
| **Debt securities at fair value through profit or loss (Schedules A, P)** | 6 | **17,106,724** | **13,838,629** | **2,645,739** |
| **Derivative instruments (Schedules O, P)** | 6 and 8 | **69,478** | **46,217** | **169,717** |
| **Repo transactions (Schedule P)** | 6 | **413,127** | **-** | **-** |
| **Other financial assets (Schedule P)** | 6 and 9 | **1,237,300** | **660,612** | **1,295,756** |
| **Loans and other financing arrangements (Schedules B, C, D, P)** | 6 and 7 | **38,223,614** | **32,301,214** | **25,579,241** |
| Non-financial public sector | | 22,438 | 69,484 | 122,899 |
| Other financial institutions | | 379,885 | 424,380 | 532,143 |
| Non-financial private sector and foreign residents | | 37,821,291 | 31,807,350 | 24,924,199 |
| **Other debt securities (Schedules A, P)** | 6 | **3,367,251** | **1,628,027** | **1,950,902** |
| **Financial assets pledged as collateral (Schedule P)** | 6 | **1,811,172** | **2,062,126** | **2,868,502** |
| **Current income tax assets** | 14 | **188,799** | **83,713** | **25,126** |
| **Investments in equity instruments (Schedules A, P)** | 6 | **-** | **4,518** | **3,857** |
| **Investment in subsidiaries, associates and joint ventures (Schedule E)** | 15 | **2,801,241** | **1,918,674** | **1,655,950** |
| **Bank premises and equipment (Schedule F)** | 12 | **1,442,371** | **2,785,217** | **1,402,949** |
| **Intangible assets (Schedule G)** | 13 | **123,043** | **106,631** | **81,341** |
| **Other non-financial assets** | 11 | **3,452,801** | **244,630** | **401,418** |
| **TOTAL ASSETS** | | **78,189,551** | **59,325,509** | **45,180,129** |

**Lorena C. Morchón**
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For the Supervisory Committee

……………………….(Partner)
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**BANCO Hipotecario**

## SEPARATE BALANCE SHEET

For the fiscal year ended 12/31/2018
Comparative as of 12/31/2017 and 01/01/2017
In thousands of Argentine Pesos

| ITEM | NOTES | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| **Deposits (Schedules H, I, P)** | 6 | **30,401,970** | **21,006,336** | **17,800,760** |
| Non-financial public sector | | 3,625,037 | 2,399,321 | 1,723,901 |
| Financial sector | | 102,083 | 163,274 | 9,820 |
| Non-financial private sector and foreign residents | | 26,674,850 | 18,443,741 | 16,067,039 |
| **Liabilities at fair value through profit or loss (Schedules I, P)** | 6 | **751,511** | **-** | **-** |
| **Derivative instruments (Schedules I, O, P)** | 6 and 8 | **1,496,817** | **732,192** | **807,188** |
| **Repo transactions (Schedules I, P)** | 6 | **53,662** | **1,061,552** | **1,752,267** |
| **Other financial liabilities (Schedules I, P)** | 6 and 17 | **4,584,605** | **2,998,999** | **2,162,237** |
| **Loans from the B.C.R.A. and other financial institutions (Schedules I, P)** | 6 | **57,105** | **160,457** | **265,521** |
| **Negotiable obligations issued (Schedules I, P)** | 6 and 16 | **28,528,629** | **23,333,067** | **14,383,925** |
| **Provisions (Schedule J)** | 19 | **262,462** | **352,701** | **241,687** |
| **Deferred income tax liabilities** | 14 | **291,417** | **142,361** | **138,400** |
| **Other non-financial liabilities** | 18 | **1,962,573** | **1,590,679** | **1,228,316** |
| **TOTAL LIABILITIES** | | **68,390,751** | **51,378,344** | **38,780,301** |
| **SHAREHOLDERS' EQUITY** | 20 | | | |
| Capital stock (Schedule K) | | 1,500,000 | 1,500,000 | 1,500,000 |
| Non-capitalized contributions | | 28,381 | 834 | 834 |
| Capital adjustments | | 717,115 | 717,115 | 717,115 |
| Reserves | | 5,644,012 | 4,277,900 | 2,059,361 |
| Unappropriated retained earnings | | (142,120) | 320,826 | 1,507,194 |
| Other accumulated comprehensive income | | - | - | - |
| Income for the year | | 2,051,412 | 1,130,490 | 615,324 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **9,798,800** | **7,947,165** | **6,399,828** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **78,189,551** | **59,325,509** | **45,180,129** |

Notes and Schedules hereto are an integral part of these separate financial statements.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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For the Supervisory Committee

………………………..(Partner)
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BANCO Hipotecario

# SEPARATE STATEMENT OF INCOME

For the fiscal year ended 12/31/2018

In comparative format with the previous fiscal year
In thousands of Argentine Pesos

| ITEM | NOTES | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| Interest and adjustments income (Schedule Q) | 21 | 12,300,985 | 8.148.797 |
| Interest and adjustments expense (Schedule Q) | 22 | (11,090,125) | (5.242.530) |
| **Net interest income** | | **1,210,860** | **2,906,267** |
| Fee and commission income (Schedule Q) | 21 | 3,097,366 | 2,549,955 |
| Fee and commission expense (Schedule Q) | | (90,578) | (129,410) |
| **Net fee and commission income** | | **3,006,788** | **2,420,545** |
| Net income from measurement of financial instruments at fair value through profit or loss (Schedule Q) | | 4,845,480 | 1,268,295 |
| Gold and foreign quotation differences | 23 | (809,533) | (137,104) |
| Other operating income | 24 | 1,440,554 | 1,077,193 |
| Loan loss provision (Schedule R) | | (1,007,194) | (473,140) |
| **Net operating income** | | **8,686,955** | **7,062,056** |
| Employee benefits | | (2,913,691) | (2,966,115) |
| Administrative expenses | | (1,820,477) | (1,516,909) |
| Depreciation and impairment of assets | | (407,722) | (109,043) |
| Other operating expenses | 26 | (2,547,162) | (2,371,052) |
| **Operating income** | 25 | **997,903** | **98,937** |
| Income from subsidiaries, associates and joint ventures | 12 | 1,202,564 | 1,035,515 |
| **Income before tax** | 24 | **2,200,467** | **1,134,452** |
| Income tax | | (149,055) | (3,962) |
| **Net income** | | **2,051,412** | **1,130,490** |
| **NET INCOME FOR THE YEAR** | | **2,051,412** | **1,130,490** |

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BANCO Hipotecario

## SEPARATE STATEMENT OF INCOME

For the fiscal year ended 12/31/2018

In comparative format with the previous fiscal year

In thousands of Argentine Pesos

| EARNINGS PER SHARE | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **NUMERATOR** | | |
| Net income attributable to the parent company's shareholders | 2,051,412 | 1,130,490 |
| PLUS: Effects of dilution inherent in potential common shares | - | - |
| Net income attributable to the parent company's shareholders adjusted to reflect the effect of dilution | 2,051,412 | 1,130,490 |
| **DENOMINATOR** | | |
| Weighted average of outstanding common shares for the fiscal year | 1,464,670 | 1,463,365 |
| PLUS: Weighted average of additional common shares with diluting effects | - | - |
| Weighted average of outstanding common shares for the fiscal year adjusted to reflect the effects of dilution | 1,464,670 | 1,463,365 |
| **EARNINGS PER BASIC SHARE** | **1.401** | **0.773** |
| **EARNINGS PER DILUTED SHARE** | **1.401** | **0.773** |

Notes and Schedules hereto are an integral part of these separate financial statements.

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**Manuel J.L. Herrera Grazioli**
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## SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

For the fiscal year ended 12/31/2018

In comparative format with the same period of the previous fiscal year
In thousands of Argentine Pesos

| ITEM | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Net income for the fiscal year** | 2,051,412 | 1,130,490 |
| **Total other comprehensive income for the fiscal year** | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE FISCAL YEAR** | **2,051,412** | **1,130,490** |

Notes and Schedules hereto are an integral part of these separate financial statements.

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**Manuel J.L. Herrera Grazioli**
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BANCO Hipotecario

# SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the fiscal year ended 12/31/2018

In thousands of Argentine Pesos

| Changes | Capital Stock | | Non-capitalized contributions | | Equity adjustment | Other Comp. Income | Profit reserves | | | Retained earnings | Total as of 12/31/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding | Treasury Stock | Share issuance Premium | Stock-based payment | | | Legal | Stock-based payment | Other | | |
| **Opening balances** | **1,463,365** | **36,635** | **834** | **-** | **717,115** | **-** | **1,129,962** | **439,617** | **2,708,321** | **1,451,316** | **7,947,165** |
| Allocation of retained earnings – Approved by Shareholders' Resolution dated 04/09/2018 | | | | | | | | | | | |
| -Legal reserve | - | - | - | - | - | - | 318,687 | - | - | (318,687) | - |
| -Other reserves | - | - | - | - | - | - | - | - | 1,274,749 | (1,274,749) | - |
| -Dividends in cash | - | - | - | - | - | - | - | - | (199,777) | - | (199,777) |
| Stock-based payments under Compensation Plan | 2,296 | (2,296) | - | 27,547 | - | - | - | (27,547) | - | - | - |
| Net income for the fiscal year | - | - | - | - | - | - | - | - | - | 2,051,412 | 2,051,412 |
| **Closing balances for the fiscal year** | **1,465,661** | **34,339** | **834** | **27,547** | **717,115** | **-** | **1,448,649** | **412,070** | **3,783,293** | **1,909,292** | **9,798,800** |

Notes and Schedules hereto are an integral part of these separate financial statements.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

………………………..(Partner)
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## SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the fiscal year ended 12/31/2017

In thousands of Argentine Pesos

| Changes | Capital Stock | | Non-capitalized contributions | | Equity adjustment | Other Comp. Income | Profit reserves | | | Retained Earnings | Total as of 12/31/2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding | Treasury Stock | Share issuance Premium | Stock-based payment | | | Legal | Stock-based payments | Other | | |
| **Opening balances** | **1,463,365** | **36,635** | **834** | **-** | **717,115** | **-** | **1,006,896** | **-** | **1,052,465** | **2,078,562** | **6,355,872** |
| **Adjustments and retroactive restatements (1)** | - | - | - | - | - | - | - | - | - | 43,956 | 43,956 |
| **Adjusted opening balances** | **1,463,365** | **36,635** | **834** | **-** | **717,115** | **-** | **1,006,896** | **-** | **1,052,465** | **2,122,518** | **6,399,828** |
| Allocation of retained earnings – Approved by Shareholders' Resolution dated 04/04/2017 | | | | | | | | | | | |
| -Legal reserve | - | - | - | - | - | - | 123,066 | - | - | (123,066) | - |
| -Other reserves | - | - | - | - | - | - | - | - | 1,655,856 | (1,655,856) | - |
| Changes in non-controlling interest | - | - | - | - | - | - | - | - | - | (22,770) | (22,770) |
| Creation of compensation plan | - | - | - | - | - | - | - | 439,617 | - | - | 439,617 |
| Net income for the fiscal year | - | - | - | - | - | - | - | - | - | 1,130,490 | 1,130,490 |
| **Closing balances for the fiscal year** | **1,463,365** | **36,635** | **834** | **-** | **717,115** | **-** | **1,129,962** | **439,617** | **2,708,321** | **1,451,316** | **7,947,165** |

See Note 2.2.(d).

Notes and Schedules hereto are an integral part of these separate financial statements.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

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For the Supervisory Committee

………………………..(Partner)
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BANCO Hipotecario

**SEPARATE STATEMENT OF CASH FLOWS**
For the fiscal year ended 12/31/2018
In comparative format with the same period of the previous fiscal year
In thousands of Argentine Pesos

| ITEM | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Net income for the year before income tax** | **2,200,467** | **1,134,452** |
| **Adjustments to obtain cash flows from operating activities** | | |
| Depreciation and impairment of assets | 407,722 | 109,043 |
| Loan loss provisions, net of recovered loans | 814,689 | 340,006 |
| Provision for loan losses, net of reversed provisions | (34,039) | 197,067 |
| Income/(loss) from investment in subsidiaries | (1,202,564) | (1,035,515) |
| Net interest income | (1,210,860) | (2,906,267) |
| Changes in fair value of investments in financial instruments | (4,845,480) | (1,552,228) |
| Income/(loss) from sale of bank premises and equipment / Revaluation of investment property | (191,867) | (81,245) |
| Creation of Compensation plan | - | 439,617 |
| **Net increase/(decrease) from operating assets** | | |
| Debt securities at fair value through profit or loss | 1,670,955 | (9,597,645) |
| Derivative instruments | (23,261) | 123,500 |
| Repo Transactions | (394,689) | - |
| Loans and other financing arrangements | | |
| Non-financial public sector | 232,455 | 497,863 |
| Financial sector | 44,495 | 107,763 |
| Non-financial private sector and foreign residents | 4,356,966 | 37,665 |
| Other debt securities | (827,682) | 766,402 |
| Financial assets pledged as collateral | 250,954 | 806,376 |
| Investments in equity instruments | 4,518 | (661) |
| Other assets | (3,619,675) | 173,697 |
| **Net increase/(decrease) from operating liabilities** | | |
| Deposits | | |
| Non-financial public sector | 1,225,716 | 675,420 |
| Financial sector | (61,191) | 153,454 |
| Non-financial private sector and foreign residents | 3,443,659 | 25,912 |
| Liabilities at fair value through profit or loss | 751,511 | - |
| Derivative instruments | 671,054 | (118,013) |
| Repo Transactions | (1,124,385) | (764,842) |
| Other liabilities | 5,840,051 | 1,462,126 |
| **Total from operating activities** | **8,379,519** | **(9,006,053)** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

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For the Supervisory Committee

………………………..(Partner)
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BANCO Hipotecario

## SEPARATE STATEMENT OF CASH FLOWS

For the fiscal year ended 12/31/2018
In comparative format with the previous fiscal year
In thousands of Argentine Pesos

| ITEM | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Cash flows from investing activities** | | |
| **Payments** | | |
| Purchase of bank premises and equipment, intangible assets and other assets | (203,476) | (1,213,098) |
| Other payments related to investing activities (Note 15) | (480,000) | - |
| **Collections** | | |
| Sale of bank premises and equipment, intangible assets and other assets | 1,380 | 104,006 |
| Other collections related to investing activities | 799,997 | 749,999 |
| **Total from investing activities** | **117,901** | **(359,093)** |
| **Cash flows from financing activities** | | |
| **Payments** | | |
| Payment of dividends | (199,777) | - |
| Unsubordinated negotiable Obligations | (6,479,701) | (3,504,232) |
| Loans from domestic financial institutions | (24,860,909) | (22,070,778) |
| Other payments related to financing activities | (6,127) | - |
| **Collections** | | |
| Unsubordinated negotiable Obligations | 1,243,688 | 9,446,643 |
| Debt securities of financial trusts | 369,419 | - |
| Loans to domestic financial institutions | 24,700,909 | 21,805,778 |
| **Total from financing activities** | **(5,232,498)** | **5,677,411** |
| | | |
| **Effect of exchange rate variations** | 1,042,407 | 233,405 |
| | | |
| **TOTAL VARIATION OF CASH FLOWS** | | |
| Net increase/(decrease) in cash and cash equivalents | 4,307,329 | (3,454,330) |
| Cash and cash equivalents at the beginning of the year | 3,645,301 | 7,099,631 |
| Cash and cash equivalents at the end of the year | 7,952,630 | 3,645,301 |

Notes and Schedules hereto are an integral part of these separate financial statements.

| | | |
|---|---|---|
| **Lorena C. Morchón**<br>General Accounting Manager | **Manuel J.L. Herrera Grazioli**<br>General Manager | See our report dated<br>March 6, 2019<br>PRICE WATERHOUSE & Co. S.R.L. |
| **Saúl Zang**<br>Second Vice-Chairman acting as Chairman | **Ricardo Flammini**<br>For the Supervisory Committee | ………………………..(Partner)<br>C.P.C.E.C.A.B.A. Volume 1 – Page 17 |

## 1. BANCO HIPOTECARIO SOCIEDAD ANÓNIMA

Banco Hipotecario S.A. (hereinafter, "the Bank") is a financial institution subject to the Financial Institutions Law No. 21,526 and, as such, is also required to comply with the regulations laid down by the Argentine Central Bank (BCRA) in its capacity as Regulatory Authority of Financial Institutions. The Bank is also required to comply with the regulations handed down by the Argentine Securities Commission ("CNV"), in accordance with Law No. 26,831.

## 2. ACCOUNTING STANDARDS AND BASIS FOR PREPARATION

These separate financial statements were approved by the Board of Directors on March 6, 2019.

### 2.1. Adoption of International Financial Reporting Standards (IFRS)

The BCRA, through Communication "A" 5541, as amended, set forth a convergence plan towards the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), to be complied with by entities under the Argentine Central Bank's oversight, except for Item 5.5. (Impairment) of IFRS 9 "Financial Instruments," effective for fiscal years commenced on January 1, 2018. Entities are also required to prepare their opening financial statements since January 1, 2017, which will serve as comparative basis to the financial statements commencing on January 1, 2018, with the interim financial statements as of March 31, 2018 being the first interim financial statements in being prepared under these standards, except for the application of item 5.5. (Impairment) of IFRS 9 "Financial Instruments" and International Accounting Standard (IAS) 29 "Financial reporting in hyperinflationary economies".

**Impairment of financial assets**

By means of Communication "A" 6430, the BCRA established that Financial Institutions shall apply the financial assets impairment provisions in Item 5.5 of IFRS 9 for fiscal years beginning on or after January 1, 2020.

For such purposes, IFRS 9 provides for a model of expected credit losses whereby financial assets are classified into three stages of impairment, based on credit quality changes after initial recognition, indicating how an entity measures impairment losses and applies the effective interest method.

As of the date of these consolidated financial statements, the Bank is in the process of quantifying the effect the application of that impairment model would have.

Pursuant to Communication "A" 6114 issued by the BCRA, the Entity has applied the provisions in Note 2.11 to recognize credit losses in these financial statements.

On February 22, 2019, the BCRA published Communication "A" 6651 setting forth that Financial Institutions shall apply IAS 29 for fiscal years beginning on or after January 1, 2020.

Comparative figures and figures as of the transition date (January 1, 2017) were modified to reflect the adjustments to the previous accounting framework.

Note 3 presents a reconciliation of the figures disclosed in the balance sheet, statement of income, the statement of other comprehensive income and the statement of cash flows comprising the financial statements issued under the previous accounting framework to the figures disclosed according to the accounting framework established by the Argentine Central Bank in these separate financial statements, as of the transition date (January 1, 2017) and as of the adoption date (December 31, 2017).

These separate financial statements should be read together with the Bank's annual financial statements as of December 31, 2017 prepared in accordance with the preceding accounting framework.

The Bank’s management has concluded that these separate financial statements fairly present its financial position, financial performance and cash flows.

**2.2. Basis for Preparation**

These separate financial statements were prepared in accordance with the accounting framework laid down by the BCRA as disclosed in note 2.1.

In preparing these separate financial statements, the Bank is required to make estimates and assessments affecting the reported amounts of assets and liabilities, and contingent assets and liabilities disclosed as of the date of these separate financial statements, as well as the reported amounts of income and expenses.

The Bank makes estimates, for instance, to calculate the allowance for loan losses, the useful life of bank's premises & equipment, depreciation and amortization, the recoverable value of assets, the income tax expense, some labor-related costs, and the provisions for contingencies and lawsuits. Future actual results may differ from the estimates and assessments made as of the date these separate financial statements were prepared.

The areas involving a higher degree of judgment or complexity or the areas in which the assumptions and estimates are material for these separate financial statements are described in Note 4.

The separate financial statements are denominated in Pesos, which is the Bank’s functional currency.

**(a) Going concern**

As of the date of these separate financial statements, there are no uncertainties as to developments or circumstances that may call into question the likelihood that the Bank will continue operating normally as a going concern.

**(b) Restatement of financial statements for inflation**

IAS 29 “Financial Reporting in Hyperinflationary Economies” requires that the financial statements of an entity whose functional currency is that of a highly-inflationary economy be stated in terms of the current measurement unit as of the reporting fiscal year-end, regardless of whether such financial statements are based on the historical or the current cost method. To such end, in general terms, entities are required to account for inflation occurring since the acquisition date or the revaluation date, as applicable, in non-monetary items. Such requirements are also applicable to the comparative information disclosed in the financial statements.

The standard sets out a number of factors that should be considered to conclude whether an economy is highly-inflationary under the terms of IAS 29, including a cumulative inflation rate for three consecutive years close to, or in excess of, 100%. That is way, pursuant to IAS 29, the Argentine economy should be considered as highly-inflationary as from July 1, 2018.

In summary, according to the restatement mechanism set forth in IAS 29, monetary assets and liabilities will not be restated for they are already stated in the measuring unit current at the end of the reporting period. Assets and liabilities subject to adjustments on the basis of specific arrangements will be adjusted according to such arrangements. Non-monetary items measured at their current values at the end of the reporting period, such as net realizable value or others, will not be restated. All other non-monetary assets and liabilities will be restated by applying a general price index. Gains or losses from an entity's net monetary position will be charged to the reporting period's net income or loss in a separate item.

On February 22, 2019, the BCRA published Communication A 6651 setting forth that Financial Institutions shall apply IAS 29 for fiscal years beginning on or after January 1, 2020.

The Group is working on estimating the restatement.

Based on the foregoing, the Group's shareholders' equity and results would significantly differ from currently reported balances if they were restated in constant currency as of the measurement date, pursuant to the restatement mechanism provided for under IAS 29.

**(c) Changes in Accounting Criteria / New Accounting Standards**

Regarding new IFRS approved, or current IFRS that are modified or repealed, once said changes are adopted through Circulars of Adoption issued by the Argentine Federation of Professional Councils in Economic Sciences ("FACPCE"), the BCRA shall decide on approval thereof in relation to financial institutions. In general, early adoption of IFRS shall not be allowed, unless specifically admitted upon adoption.

Below is a detail of the new standards, amendments and interpretations that have been released but have not yet come in force for fiscal years beginning on January 1, 2018 and thereafter, and which have not been early adopted:

**IFRS 16 "Leases":** In January 2016, the IASB issued IFRS 16 "Leases" which sets out a new accounting model for leases. Under IFRS 16, a contract is or contains a lease if the contract confers the lessee a right to control the use of an identified asset for a period of time, for consideration. IFRS 16 requires that the lessee recognize the liability arising from the lease reflecting the lease future payments and a right of use of the assets for substantially all leases, other than certain short-term leases and leases of low-value assets. Lessor accounting is maintained as provided for in IAS 17. However, the new accounting model for lessees is expected to have an impact on negotiations between lessors and lessees. Through Communication "A" 6560, the BCRA introduced changes to the accounts plan and reporting regimes as a result of the effectiveness of the IFRS as from January 1, 2019. The Bank is assessing the impact the adoption of such standard will have on its financial statements.

**IFRS 17 "Insurance Contracts":** On May 18, 2017, the IASB issued IFRS 17 "Insurance Contracts," establishing a comprehensive accounting framework based on measurement and disclosure principles for insurance contracts. The new standard supersedes IFRS 4 "Insurance Contracts," and requires that insurance contracts be measured using current fulfillment cash flows and that revenues be recognized as the insurance service is delivered during the term of the coverage. Entities are required to apply IFRS 17 for fiscal years commencing on or after November 1, 2021. The Bank is assessing the potential impact this standard will have on its financial statements.

**IFRIC 23 "Uncertainty over Income Tax Treatment":** This interpretation sheds light on how the recognition and measurement requirements of IAS 12 "Income Tax" should be applied when there is uncertainty over the income tax treatment. IFRIC 23 was published in June 2017 and entities will be required to apply it for fiscal years commencing on or after January 1, 2019.

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To date, there are no other IFRS or IFRIC interpretations which have not yet come into force and which are expected to have a material impact on the Bank.

**Amendment to IFRS 9 "Financial Instruments":** This amendment allows entities to measure certain instruments allowing early payment with negative compensation at amortized cost. For such assets, which include certain loans and bonds, to be measured at amortized cost, the negative compensation shall be "reasonable compensation for early termination" and the asset shall be held in a business model as held for collection. This regulation applies to fiscal years beginning on or after January 1, 2019. The Bank is working on the quantification of this effect.

**Changes in IAS 28 "Investment in associates and joint ventures":** the changes introduced clarify long-term accounting of associates and joint ventures for which the equity method shall not apply. Entities shall account for such investments pursuant to IFRS 9 "Financial Instruments" before applying the impairment requirements of IAS 28 "Investment in associates and joint ventures". This regulation applies to fiscal years beginning on or after January 1, 2019. The Bank estimates that application of this standard will not have a significant impact.

**(d) Accounting criteria**

The accounting criteria adopted by the Bank in these separate financial statements are detailed in Note 2 to the consolidated financial statements.

On November 14, 2018, the Bank's Board of Directors approved the accounting policy applicable to the item "Investment property", which adopts the fair value method as a measurement criterion after initial recognition of those assets. As set forth in IAS 8, the change in accounting policy for the item was retroactively applied with an adjustment of initial balances for the oldest prior period presented in the financial statements. That is to say that in these financial statements, balances were restated as from January 1, 2017 onwards, as if the new accounting policy had always applied.

Below is a detail of the amount of the adjustment for each affected item in the financial statements:

| | 12/31/2018 | 12/31/2017 | 1/1/2017 |
|---|---|---|---|
| | (In thousands of Pesos) | | |
| Bank premises and equipment | - | (78,594) | (83,804) |
| Other non-financial assets | 282,921 | 171,574 | 151,429 |
| Deferred tax liabilities | (70,730) | (23,246) | (23,669) |
| **Total impact on shareholders' equity** | **212,191** | **69,734** | **43,956** |

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Pesos) | |
| Other operating income | 189,941 | 20,030 |
| Depreciation and impairment of assets | 1,781 | 5,325 |
| Income tax | (47,484) | 423 |
| **Total impact on income for the year** | **144,238** | **25,778** |

The amount of earnings per share, both basic and diluted, would have decreased by 0.098 and 0.018 for fiscal years ended December 31, 2018 and 2017, respectively, if the previous accounting policy had been applied.

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## 3. TRANSITION TO IFRS

### 3.1 Requirements for the transition to IFRS

Note 3.4 presents a reconciliation between the shareholders' equity, statement of income, and other comprehensive income amounts related to the financial statements issued according to the accounting framework prior to the transition date (January 1, 2017) and as of the adoption date (December 31, 2017) and the amounts presented according to IFRS in these separate financial statements, as well as the effects of adjustments to cash flows.

### 3.2 Optional exemptions under IFRS

Under IFRS 1, first-time adopters are allowed to consider certain one-off exemptions. The IASB has established such exemptions in order to streamline the first-time adoption of certain IFRS, removing the retroactive application requirement.

Below is a detail of the optional exemptions applicable to the Bank under IFRS 1:

1. **Cost allocated to bank premises & equipment and investment property:** The fair value of certain items of bank premises & equipment has been adopted as allocated cost as of the transition date to the IFRS.
2. **Business combinations:** The Bank has decided not to apply IFRS 3 "Business Combinations" retroactively to business combinations consummated before the transition date to the IFRS.
3. **Assets and liabilities of subsidiaries that have already adopted the IFRS:** The Bank has adopted the IFRS for the first time after its subsidiary Tarshop. Therefore, the carrying amounts of this subsidiary's assets and liabilities have been measured in the Bank's separate financial statements for the same carrying amounts disclosed in the financial statements of that subsidiary (except for the application of Item 5.5. of IFRS 9).
4. **Investments in subsidiaries, entities under common control and associates:** The Bank may, at its option, measure such investments at cost under IFRS 9; or under the equity method described in IAS 28.

The Bank has not relied on the other exemptions available under the IFRS 1.

### 3.3 Mandatory exceptions under IFRS

Below is a detail of the mandatory exceptions applicable to the Bank under IFRS 1:

1. Estimates: The Bank's estimates under IFRS as of January 1, 2017 are consistent with the estimates as of the same date calculated pursuant to the Argentine Central Bank's accounting standards, considering the comments in Note 2.1 (without applying the impairment chapter under IFRS 9).
2. Derecognition of financial assets and liabilities: The Bank has relied on the derecognition criteria for financial assets and liabilities under IFRS 9 on a prospective basis for transactions occurring subsequent to January 1, 2017.
3. Classification and measurement of financial assets: The Bank has taken into consideration the facts and circumstances prevailing as of January 1, 2017 in assessing whether financial assets are eligible for classification as assets measured at amortized cost, or at fair value through other comprehensive income.

The other mandatory exceptions under IFRS 1 have not been applied for they are not material to the Bank.

### 3.4 Required reconciliation

As required by Communication "A" 5541, as supplemented, below is a detail of the main adjustments resulting from the transition to the IFRS, and of certain reconciliation in connection with such transition, as follows:

- Reconciliation of shareholders' equity determined under the Argentine Central Bank's rules to shareholders' equity determined under the IFRS, as of January 1, 2017 (transition date to IFRS) and as of December 31, 2017; and

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- Reconciliation of net income for the year determined under the Argentine Central Bank's rules as of December 31, 2017 and to total comprehensive income determined under IFRS as of such date.
-

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- Reconciliation of shareholders' equity as of January 1, 2017

| | Ref. | Balances under Argentine Central Bank's rules | Reclassifications | Valuation adjustments | Balances under IFRS |
|---|---|---|---|---|---|
| | | (In thousands of Ps.) | | | |
| Cash and bank deposits | | 7,099,631 | - | - | 7,099,631 |
| Debt securities at fair value through profit or loss | (a) | 836,538 | 1,804,386 | 4,815 | 2,645,739 |
| Derivative instruments | | 169,717 | - | - | 169,717 |
| Other financial assets | | 1,295,756 | - | - | 1,295,756 |
| Loans and other financing arrangements | (b) | 25,678,115 | - | (98,874) | 25,579,241 |
| Other debt securities | (a) | 3,774,994 | (1,804,386) | (19,706) | 1,950,902 |
| Financial assets pledged as collateral | | 2,868,502 | - | - | 2,868,502 |
| Current income tax assets | | 25,126 | - | - | 25,126 |
| Investments in equity instruments | | 3,857 | - | - | 3,857 |
| Investments in subsidiaries, associates and joint ventures | (l) | 1,659,556 | 10,842 | (14,448) | 1,655,950 |
| Bank premises & equipment (*) | (c) | 413,531 | - | 1,073,222 | 1,486,753 |
| Intangible assets | (d) | 544,917 | (10,842) | (452,734) | 81,341 |
| Other non-financial assets (*) | (e) | 282,542 | - | (32,553) | 249,989 |
| **TOTAL ASSETS** | | **44,652,782** | **-** | **459,722** | **45,112,504** |
| Deposits | | 17,800,760 | - | - | 17,800,760 |
| Derivative instruments | | 807,188 | - | - | 807,188 |
| Repo transactions | | 1,752,267 | - | - | 1,752,267 |
| Other financial liabilities | | 2,162,237 | - | - | 2,162,237 |
| Loans from the Argentine Central Bank and other financial institutions | | 265,521 | - | - | 265,521 |
| Negotiable obligations issued | (f) | 14,448,613 | - | (64,688) | 14,383,925 |
| Provisions | (i) | 241,687 | - | - | 241,687 |
| Deferred income tax liabilities (*) | (g) | - | - | 114,731 | 114,731 |
| Other non-financial liabilities | (h) | 1,118,281 | - | 110,035 | 1,228,316 |
| **TOTAL LIABILITIES** | | **38,596,554** | **-** | **160,078** | **38,756,632** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | (j) (k) | **44,652,782** | **-** | **459,722** | **45,112,504** |

(*) Balances are exposed without considering the restatement made under note 2.2.(d).

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▪ Reconciliation of shareholders' equity as of December 31, 2017

| | Ref. | Balances under Argentine Central Bank's rules | Reclassifications | Valuation adjustments | Balances under IFRS |
|---|---|---|---|---|---|
| | | (In thousands of Ps.) | | | |
| Cash and bank deposits | | 3,645,301 | - | - | 3,645,301 |
| Debt securities at fair value through profit or loss | (a) | 12,678,267 | 1,161,897 | (1,535) | 13,838,629 |
| Derivative instruments | | 46,217 | - | - | 46,217 |
| Other financial assets | | 660,612 | - | - | 660,612 |
| Loans and other financing arrangements | (b) | 32,326,380 | - | (25,166) | 32,301,214 |
| Other debt securities | (a) | 2,806,066 | (1,161,897) | (16,142) | 1,628,027 |
| Financial assets pledged as collateral | | 2,062,126 | - | - | 2,062,126 |
| Current income tax assets | | 83,713 | - | - | 83,713 |
| Investments in equity instruments | | 4,518 | - | - | 4,518 |
| Investments in subsidiaries, associates and joint ventures | (l) | 1,990,985 | 10,842 | (83,153) | 1,918,674 |
| Bank premises & equipment (*) | (c) | 1,803,782 | - | 1,060,151 | 2,863,933 |
| Intangible assets | (d) | 517,409 | (10,842) | (399,936) | 106,631 |
| Other non-financial assets (*) | (e) | 73,660 | - | (604) | 73,056 |
| **TOTAL ASSETS** | | **58,699,036** | **-** | **533,615** | **59,232,651** |
| Deposits | | 21,006,336 | - | - | 21,006,336 |
| Derivative instruments | | 732,192 | - | - | 732,192 |
| Repo transactions | | 1,061,552 | - | - | 1,061,552 |
| Other financial liabilities | | 2,998,999 | - | - | 2,998,999 |
| Loans from the Argentine Central Bank and other financial institutions | | 160,457 | - | - | 160,457 |
| Negotiable obligations issued | (f) | 23,333,067 | - | - | 23,333,067 |
| Provisions | (i) | 344,937 | - | 7,764 | 352,701 |
| Deferred income tax liabilities (*) | (g) | - | - | 119,115 | 119,115 |
| Other non-financial liabilities | (h) | 1,411,825 | - | 178,854 | 1,590,679 |
| **TOTAL LIABILITIES** | | **51,049,365** | **-** | **305,733** | **51,355,098** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | (j) (k) | **58,699,036** | **-** | **533,615** | **59,232,651** |

(*) Balances are exposed without considering the restatement made under note 2.2.(d).

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- Reconciliation of net income and total comprehensive income for the fiscal year ended December 31, 2017

| | Ref. | Balances under Argentine Central Bank's rules | Reclassifications | Valuation adjustments | Balances under IFRS |
|---|---|---|---|---|---|
| | | (In thousands of Ps.) | | | |
| Interest and adjustments income | (b) | 8,087,957 | 733 | 60,107 | 8,148,797 |
| Interest and adjustments expense | (f) | (5,246,966) | - | 4,436 | (5,242,530) |
| **Net interest income** | | **2,840,991** | **733** | **64,543** | **2,906,267** |
| Fee and commission income | | 2,549,955 | - | - | 2,549,955 |
| Fee and commission expense | (f) | (64,722) | - | (64,688) | (129,410) |
| **Net fee and commission income (expense)** | | **2,485,233** | **-** | **(64,688)** | **2,420,545** |
| Net income (loss) from measurement of financial instruments at fair value through profit or loss | (a) | 1,279,813 | (733) | (10,785) | 1,268,295 |
| Gold and foreign currency quotation differences | | (137,104) | - | - | (137,104) |
| Other operating income (*) | (b) (d) | 1,070,126 | - | (12,963) | 1,057,163 |
| Loan loss provision | (b) | (476,704) | - | 3,564 | (473,140) |
| **Net operating income** | | **7,062,355** | **-** | **(20,329)** | **7,042,026** |
| Employee benefits (*) | (h) (j) | (2,456,830) | - | (509,285) | (2,966,115) |
| Administrative expenses | (d) (e) | (1,479,119) | - | (37,790) | (1,516,909) |
| Depreciation and impairment of assets (*) | (c) (d) | (254,077) | - | 139,831 | (114,246) |
| Other operating expenses | (i) | (2,363,288) | - | (7,764) | (2,371,052) |
| **Operating income (loss)** | | **509,041** | **-** | **(435,337)** | **73,704** |
| Share of profit (loss) of associates and joint ventures | (k) (l) | 1,084,398 | 22,780 | (71,663) | 1,035,515 |
| **Income (loss) before tax from continuing activities** | | **1,593,439** | **22,780** | **(507,000)** | **1,109,219** |
| Income tax from continuing activities | (g) | - | - | (4,385) | (4,385) |
| **Net income (loss) from continuing activities** | | **1,593,439** | **22,780** | **(511,385)** | **1,104,834** |
| Income (loss) from discontinued operations | | - | - | - | - |
| Income tax from discontinued activities | | - | - | - | - |
| **Net income (loss) for the period** | | **1,593,439** | **22,780** | **(511,385)** | **1,104,834** |

(*) Balances are exposed without considering the restatement made under note 2.2.(d).

There were no adjustments or reclassifications in other comprehensive income for the fiscal year ended December 31, 2017.

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- Reconciliation of cash flows for the fiscal year ended December 31, 2017

The main difference lies in the fact that the statement of cash flows and cash equivalents presented under IFRS was prepared using the indirect method, as opposed to the direct method under the previous standards.

Under the BCRA's standards, the balance of the account Cash and Cash Resources was regarded as cash and cash equivalents. Under IFRS, cash and cash equivalents is comprised of Cash and Bank Deposits, including purchase-sale transactions of foreign currency pending settlement, with original maturity of three months or less.

**Adjustments to calculate cash and cash equivalents as of January 1, 2017**

| | Balances as per BCRA's standards | Reclassifications and adjustments | Balances under IFRS |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Cash | 714,529 | - | 714,529 |
| Bank deposits | 6,385,102 | - | 6,385,102 |
| Purchase-sale transactions of foreign currency pending settlement | - | - | - |
| **Total** | **7,099,631** | **-** | **7,099,631** |

**Adjustments to calculate cash and cash equivalents as of December 31, 2017**

| | Balances as per BCRA's standards | Reclassifications and adjustments | Balances under IFRS |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Cash | 904,482 | - | 904,482 |
| Bank deposits | 2,600,012 | - | 2,600,012 |
| Purchase-sale transactions of foreign currency pending settlement | - | 140,807 | 140,807 |
| **Total** | **3,504,494** | **140,807** | **3,645,301** |

- Explanatory notes to the IFRS transition adjustments

Below is a brief review of the main IFRS transition adjustments affecting shareholders' equity as of January 1, 2017 (transition date to the IFRS) and as of December 31, 2017, net income and total comprehensive income for the year ended December 31 2017, which arise from the comparison of the accounting criteria followed by the Bank in preparing its financial statements as of December 31, 2017 (Argentine Central Bank's accounting framework) to the accounting standards applied by the Bank in preparing its financial statements since fiscal year commenced on January 1, 2018 (IFRS).

*(a) Debt securities at fair value through profit or loss and other debt securities*

Under the IFRS, financial assets are classified into three categories: financial assets measured at amortized cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit and loss, on the basis of the business model and the specific features of the instruments.

The Bank's accounting criteria pursuant to the previous standards differ from the provisions of the IFRS in certain aspects, namely:

- Government securities with no volatility published by the Argentine Central Bank have been valued at their acquisition cost subject to an exponential increase based on the internal rate of return;
- Loans are stated at their acquisition cost, plus accrued interest on the basis of the contractual rate;
- Participation certificates in financial trusts have been valued taking into account the share of liabilities in net assets, as per the financial statements of the respective trusts, adjusted for the effect the application of the Argentine Central Bank's rules may have had on them, where applicable;
- Unlisted negotiable obligations and debt securities of financial trusts have been valued at their acquisition cost subject to an exponential increase based on the internal rate of return.

*(b) Loans and other financing arrangements*

The Bank's loan portfolio was originated within a business model whose main objective is collecting contractual cash flows (principal and interest). Under IFRS 9 "Financial Instruments," an entity's loan portfolio is required to be carried at amortized cost, using the effective interest method, with fees and commissions earned and incremental direct costs related to lending activities being added to the rate and accrued throughout the term of the loan.

Under the previous standards, interest was accrued on an exponential distribution basis in the period in which such interest was accrued, with fees and commissions earned and direct costs being recognized as generated.

*(c) Bank premises & equipment*

The Bank availed of the voluntary exemption set forth in IFRS 1 to measure its headquarters and its own branches. This entails measuring such items at their fair value and using such fair value as the cost attributed as of the transition date. The Bank has relied on appraisals in order to estimate the fair value of all such assets.

*(d) Intangible assets*

Under IFRS, an intangible asset is an identifiable non-monetary asset that has no physical substance. In order for an intangible asset to be eligible for recognition, the Bank must have control over, and future economic benefits are to be derived from, that asset. Under the previous accounting standards, the Bank recognized intangible assets not eligible for recognition as such under IFRS.

*(e) Other non-financial assets*

Under the previous accounting standards, the Bank capitalized costs associated to stationery and office supplies. According to the IFRS, these costs do not qualify for capitalization.

*(f) Negotiable obligations issued*

Under IFRS 9 "Financial Instruments," negotiable obligations were carried at amortized cost, using the effective interest method, with direct placement expenses having been recognized as a decrease in liabilities. Under the previous accounting standards, certain series of negotiable obligations were measured at the outstanding balance of principal and accrued interest and expenses were charged to profit or loss at the time of issuance.

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*(g) Deferred income tax*

Under IFRS, the income tax liability for the period encompasses current and deferred taxes. Current income tax is calculated on the basis of enacted, or substantially enacted, laws as of the balance sheet date. Deferred tax is recognized pursuant to the asset-liability method, that is, for the temporary differences arising from the valuation of assets and liabilities for tax and accounting reporting purposes. Deferred tax is assessed using tax rates (and laws) that are, or are about to be, enacted as of the date of the financial statements and that are expected to be applicable upon the realization of the respective deferred tax asset, or upon the settlement of the deferred tax liability.

Under the previous accounting standards, the Bank recognized the current tax liability for the period/year.

*(h) Other non-financial liabilities*

Under the IFRS, short-term employee benefits, such as, vacations, salaries and wages, and social security contributions, are recognized as a liability for the undiscounted amount the Bank expects to pay for such benefits. Under the previous accounting standards, the Bank set up a vacation accrual for an amount equal to the vacation bonus. The adjustment entails recognizing the vacation accrual for the total amount of the benefit the Bank expects to pay.

*(i) Provisions*

Under IFRS, the Bank's customer loyalty program must be valued at the fair value of the points that are expected to be exchanged by customers.

*(j) Reserve for stock-based compensation plan*

The Bank has a stock-based compensation plan in place, pursuant to which employees receive shares of the Bank's capital stock in exchange for their services. Under IFRS, the fair value of the services received is recognized as an expense as of the grant date and such services are not re-measured for subsequent changes in the price of the shares. As of November 30, 2017, the Bank recognized the fair value of the treasury shares set aside for the plan under the line "Employee Benefits," with its related contra-account in shareholders' equity. The plan will not result in subsequent charges to income.

*(k) Decrease in the equity interest in BACS*

Under the IFRS, a change in an equity interest in a subsidiary, without loss of control, is carried in equity. Under the previous accounting standards, the impact of such change was charged to income for the fiscal year ended December 31, 2017.

*(l) Investments in subsidiaries, associates and joint ventures*

The Bank booked an adjustment in its separate financial statements to recognize the adjustments under IFRS.

## 4. SIGNIFICANT ACCOUNTING CRITERIA AND ESTIMATES

The accounting criteria and estimates adopted by the Bank in these separate financial statements are detailed in Note 4 to the consolidated financial statements.

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## 5. CASH AND BANK DEPOSITS

The table below shows a breakdown of items comprising cash and cash equivalents:

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Cash | 1,378,117 | 904,482 | 714,529 |
| Financial institutions and correspondents | 5,706,621 | 2,600,012 | 6,385,102 |
| Others | 867,892 | 140,807 | - |
| **Cash and bank deposits** | **7,952,630** | **3,645,301** | **7,099,631** |

## 6. FINANCIAL INSTRUMENTS

The Bank held the following financial instrument portfolios:

| Instrument portfolio as of 12/31/2018 | Fair Value - Net Income (Loss) | Amortized Cost | Fair Value – OCI | Total |
|---|---|---|---|---|
| | (In thousands of Ps.) | | | |
| **Assets** | **18,060,255** | **52,121,041** | **-** | **70,181,296** |
| Cash and bank deposits | - | 7,952,630 | - | 7,952,630 |
| Debt securities at fair value through profit or loss | 17,106,724 | - | - | 17,106,724 |
| Derivative instruments | 69,478 | - | - | 69,478 |
| Repo transactions | - | 413,127 | - | 413,127 |
| Other financial assets | 32,908 | 1,204,392 | - | 1,237,300 |
| Loans and other financing arrangements | - | 38,223,614 | - | 38,223,614 |
| Other debt securities | - | 3,367,251 | - | 3,367,251 |
| Financial assets pledged as collateral | 851,145 | 960,027 | - | 1,811,172 |
| **Liabilities** | **(2,248,328)** | **(63,625,971)** | **-** | **(65,874,299)** |
| Deposits | - | (30,401,970) | - | (30,401,970) |
| Liabilities at fair value through profit or loss | (751,511) | - | - | (751,511) |
| Derivative instruments | (1,496,817) | - | - | (1,496,817) |
| Repo transactions | - | (53,662) | | (53,662) |
| Other financial liabilities | - | (4,584,605) | - | (4,584,605) |
| Loans from the Argentine Central Bank and other financial institutions | - | (57,105) | - | (57,105) |
| Negotiable obligations issued | - | (28,528,629) | - | (28,528,629) |
| **Total** | **15,811,927** | **(11,504,930)** | **-** | **4,306,997** |

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| Instrument portfolio as of 12/31/2017 | Fair Value - Net Income (Loss) | Amortized Cost | Fair Value – OCI | Total |
|---|---|---|---|---|
| | (In thousands of Ps.) | | | |
| **Assets** | **14,064,985** | **40,121,659** | **-** | **54,186,644** |
| Cash and bank deposits | - | 3,645,301 | - | 3,645,301 |
| Debt securities at fair value through profit or loss | 13,838,629 | - | - | 13,838,629 |
| Derivative instruments | 46,217 | - | - | 46,217 |
| Other financial assets | 58,101 | 602,511 | - | 660,612 |
| Loans and other financing arrangements | - | 32,301,214 | - | 32,301,214 |
| Other debt securities | - | 1,628,027 | - | 1,628,027 |
| Financial assets pledged as collateral | 117,520 | 1,944,606 | - | 2,062,126 |
| Investments in equity instruments | 4,518 | - | - | 4,518 |
| **Liabilities** | **(732,192)** | **(48,560,411)** | **-** | **(49,292,603)** |
| Deposits | - | (21,006,336) | - | (21,006,336) |
| Derivative instruments | (732,192) | - | - | (732,192) |
| Repo transactions | - | (1,061,552) | - | (1,061,552) |
| Other financial liabilities | - | (2,998,999) | - | (2,998,999) |
| Loans from the Argentine Central Bank and other financial institutions | - | (160,457) | - | (160,457) |
| Negotiable obligations issued | - | (23,333,067) | - | (23,333,067) |
| **Total** | **13,332,793** | **(8,438,752)** | **-** | **4,894,041** |

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| Instrument portfolio as of 01/01/2017 | Fair Value - Net Income (Loss) | Amortized Cost | Fair Value – OCI | Total |
|---|---|---|---|---|
| | (In thousands of Ps.) | | | |
| **Assets** | **3,231,129** | **38,382,216** | **-** | **41,613,345** |
| Cash and bank deposits | - | 7,099,631 | - | 7,099,631 |
| Debt securities at fair value through profit or loss | 2,645,739 | - | - | 2,645,739 |
| Derivative instruments | 169,717 | - | - | 169,717 |
| Other financial assets | 85,027 | 1,210,729 | - | 1,295,756 |
| Loans and other financing arrangements | - | 25,579,241 | - | 25,579,241 |
| Other debt securities | - | 1,950,902 | - | 1,950,902 |
| Financial assets pledged as collateral | 326,789 | 2,541,713 | - | 2,868,502 |
| Investments in equity instruments | 3,857 | - | - | 3,857 |
| **Liabilities** | **(807,188)** | **(36,364,710)** | **-** | **(37,171,898)** |
| Deposits | - | (17,800,760) | - | (17,800,760) |
| Derivative instruments | (807,188) | - | - | (807,188) |
| Repo transactions | - | (1,752,267) | - | (1,752,267) |
| Other financial liabilities | - | (2,162,237) | - | (2,162,237) |
| Loans from the Argentine Central Bank and other financial institutions | - | (265,521) | - | (265,521) |
| Negotiable obligations issued | - | (14,383,925) | - | (14,383,925) |
| **Total** | **2,423,941** | **2,017,506** | **-** | **4,441,447** |

**Fair Value**

The Bank classifies the fair value of its financial instruments in 3 levels, according to the quality of the data used in fair value assessment.

Level 1 Fair Value: The fair value of financial instruments traded in active markets (such as, publicly-traded derivatives, and securities held for trading or available for sale) is based on market listed prices as of the reporting period end. The market price used in financial assets held by the Bank is the current purchase price. These instruments are included in Level 1.

Level 2 Fair Value: The fair value of financial instruments that are not traded in active markets, for example, over-the-counter derivatives, is determined using valuation techniques that maximize the use of observable information and relies, to the least possible extent, on the Bank's specific estimates. If all the material variables to establish the fair value of a financial instrument are observable, the instrument is included in Level 2.

Level 3 Fair Value: If one or more material variables are not based on observable market information, the instrument is included in Level 3. This is the case of unlisted equity instruments.

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The table below shows the Bank's financial instruments measured at fair value as of the indicated dates:

| **Instrument portfolio as of 12/31/2018** | Level 1 Fair Value | Level 2 Fair Value | Level 3 Fair Value |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| **Assets** | **17,841,737** | **218,518** | **-** |
| Debt securities at fair value through profit or loss | 16,957,684 | 149,040 | - |
| Derivative instruments | - | 69,478 | - |
| Other financial assets | 32,908 | - | - |
| Financial assets pledged as collateral | 851,145 | - | - |
| **Liabilities** | **(751,511)** | **(1,496,817)** | **-** |
| Liabilities at fair value through profit or loss | (751,511) | - | - |
| Derivative instruments | - | (1,496,817) | - |
| **Total** | **17,090,226** | **(1,278,299)** | **-** |

| **Instrument portfolio as of 12/31/2017** | Level 1 Fair Value | Level 2 Fair Value | Level 3 Fair Value |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| **Assets** | **13,688,278** | **376,707** | **-** |
| Debt securities at fair value through profit or loss | 13,508,139 | 330,490 | - |
| Derivative instruments | - | 46,217 | - |
| Other financial assets | 58,101 | - | - |
| Financial assets pledged as collateral | 117,520 | - | - |
| Investments in equity instruments | 4,518 | - | - |
| **Liabilities** | **-** | **(732,192)** | **-** |
| Derivative instruments | - | (732,192) | - |
| **Total** | **13,688,278** | **(355,485)** | **-** |

| **Instrument portfolio as of 01/01/2017** | Level 1 Fair Value | Level 2 Fair Value | Level 3 Fair Value |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| **Assets** | **2,115,885** | **1,115,244** | **-** |
| Debt securities at fair value through profit or loss | 1,700,212 | 945,527 | - |
| Derivative instruments | - | 169,717 | - |
| Other financial assets | 85,027 | - | - |
| Financial assets pledged as collateral | 326,789 | - | - |
| Investments in equity instruments | 3,857 | - | - |
| **Liabilities** | **-** | **(807,188)** | **-** |
| Derivative instruments | - | (807,188) | - |
| **Total** | **2,115,885** | **308,056** | **-** |

**Valuation Techniques**

Valuation techniques to determine fair values include:

- Market or listed prices of similar instruments; and
- Estimated present value of instruments.

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All estimates in fair value are included in Level 2, in which fair values were assessed on the basis of present values adjusted for the issuer's or the entity's own credit risk.

Gains (losses) from accrual of the effective rate on the instruments are directly charged to income for the year.

**Repo transactions**
The item is breakdown as follows:

Assets

| Assets | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Repo transactions | 453,918 | - | 546,398 |

Liabilities

| Assets | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Repo transactions | (59,224) | (1,184,506) | (1,954,579) |

**Fair Value of Other Financial Instruments**
The Bank has financial instruments that are not measured at fair value. For most of them, the fair value does not substantially differ from their amortized cost, since the interest rate payable or receivable is similar to market rates or the instrument is short-term. The following substantial differences were identified as of year-end:

| Instruments as of 12/31 /2018 | Amortized Cost | Fair Value | |
|---|---|---|---|
| | | Amount | Level |
| | (In thousands of Ps.) | | |
| Loans and other financing arrangements | 38,223,614 | 36,737,107 | Level 2 |
| Negotiable obligations issued | (28,528,629) | (26,491,457) | Level 1 and 2 |

| Instruments as of 12/31/2017 | Amortized Cost | Fair Value | |
|---|---|---|---|
| | | Amount | Level |
| | (In thousands of Ps.) | | |
| Loans and other financing arrangements | 32,301,214 | 32,128,276 | Level 2 |
| Negotiable obligations issued | (23,333,067) | (23,732,088) | Level 1 and 2 |

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| Instruments as of 01/01/2017 | Amortized Cost | Fair Value | |
|---|---|---|---|
| | | Amount | Level |
| | (In thousands of Ps.) | | |
| Loans and other financing arrangements | 25,579,241 | 25,288,880 | Level 2 |
| Negotiable obligations issued | (14,383,925) | (14,284,825) | Level 1 and 2 |

**Impairment**

Below is a breakdown of changes in allowances for loan losses:

| | 12/31/2018 |
|---|---|
| | (In thousands of Ps.) |
| **Balance at the beginning** | **638,935** |
| Impairment for the year | 1,007,194 |
| Write off | (428,764) |
| Recovery for the year | (33,584) |
| **Balance at year-end** | **1,183,781** |

## 7. LOANS AND OTHER FINANCING ARRANGEMENTS

The allowances for loan losses established by the Bank cover the minimum allowances required by the Argentine Central Bank, which are determined according to the level of compliance of debtors, the guarantees securing the loans and the debtor's economic and financial condition, among others, the allowances set up for individual loans refinanced in accordance with the guidelines described in Communication "A" 4583, and supplementary rules, as amended, and certain estimates concerning the impact of the current economic situation on the recoverability of the loan portfolio which includes self-insurance of risks stemming from death and disability on the debit balance of the financing covered by contracts made with insurance companies.

All consumer loans that must be fully accounted for in accordance with the rules in force are written off from the Bank's assets one month after the date in which such provision is made.

The individual mortgage loans granted and managed by the Retail Banking network, in which the participating banks entirely assume guarantees for cash flows, were classified as normal for purposes of calculating provisioning levels.

Based on the foregoing, the Bank's Board of Directors believes that the allowances for loan losses set up are sufficient to cover the minimum allowances required by the Argentine Central Bank rules on the total amount of the portfolio.

The following table shows a breakdown of balances of loans and other financing arrangements:

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| **To the non-financial public sector** | **22,438** | **69,484** | **122,899** |
| **To the financial sector** | **379,885** | **424,380** | **532,143** |
| Interfinancial - calls granted | 250,000 | - | 30,000 |
| Other loans to domestic financial institutions | 103,634 | 391,273 | 474,679 |

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| | | | |
|---|---|---|---|
| Accrued interest, adjustments and quotation differences receivable | 26,251 | 33,107 | 27,464 |
| **To the non-financial private sector and foreign residents** | **37,821,291** | **31,807,350** | **24,924,199** |
| Overdraft facilities | 595,096 | 1,221,539 | 290,153 |
| Promissory notes | 150,210 | 665,984 | 557,614 |
| Mortgage loans | 4,805,430 | 3,419,418 | 2,743,118 |
| Pledge loans | 1,956 | 2,757 | 466,500 |
| Consumer loans | 7,413,161 | 6,218,537 | 4,308,516 |
| Credit cards | 14,017,790 | 12,600,373 | 11,467,777 |
| Financial leases | 122,322 | 159,904 | 155,775 |
| Loans to entity's personnel | 285,220 | 207,908 | 188,175 |
| Unallocated collections | (4,046) | (7,613) | (3,050) |
| Other | 11,013,991 | 7,639,076 | 4,960,836 |

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Accrued interest and quotation differences receivable | 598,360 | 333,339 | 284,426 |
| Documented interest | (26,974) | (31,078) | (15,398) |
| Allowances (Schedule R) | (1,151,225) | (622,794) | (480,243) |
| **Total loans and other financing arrangements** | **38,223,614** | **32,301,214** | **25,579,241** |

It is worth noting that on February 28, 2019, the BCRA sent the Bank a “Mandatory Note” to request reclassification of certain debtors in the commercial portfolio under the terms of section 2.7 of the Revised Text on the rules on Minimum allowances for loan losses”.

To the date of these financial statements, the Bank's management is analyzing such request pursuant to the terms of the abovementioned regulation. However, the Bank´s Board of Directors considers that allowances for loan losses set up as of December 31, 2018 regarding the aforementioned debtors were assessed in accordance with the applicable rules to classify debtors set forth by the BCRA and reflect the findings of the analysis of the information available for each debtor as of the date of preparation of these financial statements.

## 8. DERIVATIVE INSTRUMENTS

For information about derivative instruments, see Note 8 to the consolidated financial statements.

## 9. OTHER FINANCIAL ASSETS

The table below shows the balances of other financial assets as of the indicated dates:

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Financial trust participation certificates | 32,908 | 58,101 | 85,027 |
| Receivables from transactions pending settlement | 641,654 | 271,212 | 794,669 |

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| | | | |
|---|---|---|---|
| Miscellaneous receivables | | | |
| Funds pending offset | 28,086 | 69,272 | 8,826 |
| Credit card receivables | 205,248 | 113,719 | 181,275 |
| Other | 329,404 | 148,308 | 225,959 |
| **Total Other financial assets** | **1,237,300** | **660,612** | **1,295,756** |

## 10. TRANSFER OF FINANCIAL ASSETS

The Bank has made transfers of financial assets as described in Note 31.3. However, pursuant to IFRS 1, derecognition criteria for financial assets under IFRS 9 were applied on a prospective basis for transactions occurring after the transition date.

Under the IFRS, such a transfer of financial assets does not qualify for derecognition; accordingly, the Bank still recognizes the financial asset so transferred in its entirety and a financial liability reflecting the consideration it has received in exchange for the transfer.

The table below shows the financial trust not considered as derecognition of financial assets as of December 31, 2018:

| Issuer | Financial trust | Created on | Securitized amount | Trust debt security | | Estimated termination of the series |
|---|---|---|---|---|---|---|
| | | | | Type | Amount | |
| BHSA | CHA UVA Series I | Apr.-18 | 19,210 UVA | A | 8,645 UVA | Oct-24 |
| | | | | B | 5,763 UVA | Apr-28 |
| | | | | CP | 4,802 UVA | May-32 |

Furthermore, as of December 31, 2018, the Bank has maintained the following repo transactions:

- Ps. 453,918 thousand in Repos booked under off-balance sheet accounts.
- Ps. 59,224 thousand in Repos booked under "Financial assets pledged as collateral".

## 11. OTHER NON-FINANCIAL ASSETS

The table below shows the balances of other non-financial assets as of the indicated dates:

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Prepaid fees to Directors' and Supervisory Committee's Members | 41,186 | 32,428 | 25,889 |
| Tax prepayments | 66,009 | 26,512 | 7,169 |
| Prepayments for purchase of real estate (see Note 12) | - | - | 176,551 |
| Other prepayments | 97,038 | 8,270 | 19,236 |
| Investment property | 3,244,135 | 174,775 | 154,747 |
| Other | 4,433 | 2,645 | 17,826 |
| **Total non-financial assets** | **3,452,801** | **244,630** | **401,418** |

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Investment property

Changes in investment property are included in Schedule F accompanying these financial statements.

The Amounts included in the income of the fiscal year for Investment property are as follows:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (in thousands of Pesos) | |
| Income | 7,033 | 5,582 |
| Direct expenses for property transactions | (7,429) | (2,000) |

Net results from investment property as of December 31, 2018 and 2017 amount to losses by Ps. 396 thousand, and income by Ps. 3,582 thousand, recognized in "Other operating income", "Administrative expenses" and "Other operating expenses" in the comprehensive income statement.

During the fiscal years ended December 31, 2018 and 2017, there were no sales of investment property.

As of December 31, 2018, there are no restrictions to the disposal of the property included in this item. Likewise, there are no contractual obligations to acquire, build or develop investment properties, or for repairs, maintenance or improvements of investment property.

## 12. BANK PREMISES AND EQUIPMENT

Changes in bank premises and equipment are included in Schedule F accompanying these financial statements. The accounting allocation of depreciation for the year is reported in note 2.

On April 20, 2016, the Bank purchased the building known as "Edificio del Plata" through a public auction held by the Government of the City of Buenos Aires, with the purpose of setting up a branch and corporate offices. The purchase price was US Dollars sixty-eight million one hundred and fourteen thousand (68,114,000). On April 29, 2016; fifteen percent of the price (15%) was paid. The balance was paid on April 20, 2017. The title deed was executed on April 25, 2017. This building is considered to be a qualifying asset according to the definition of IAS 23, in that it necessarily takes a substantial period of time to get ready for its intended use. Therefore, as described in Note 2, the Bank has capitalized Ps. 1,758,039 thousand and Ps. 305,271 thousand as of September 28, 2018 and December 31, 2017, respectively. The referred amounts correspond to financial costs subject to capitalization under series XXIX tranche II negotiable obligation (see Note 16).

On September 28, 2018, the Bank's Board of Directors decided to discontinue the investment in the construction plan of the new corporate headquarters, changing the originally intended purpose of the building known as "Edificio del Plata". As a result of the decision of the Board of Directors, we have started to monitor compliance with the requirements set out in IAS 40 for the reclassification of the building as "Investment property." Therefore, the Bank retained an independent appraiser to make an appraisal of the building, resulting in a fair value of Ps. 2,881,092 thousand. Hence, as of December 31, 2018, we recognized an impairment loss in the amount of Ps. 291,029 thousand in the Statement of Income under "Depreciation and impairment of assets." During December 2018, the works in the property were discontinued and communication of change of use to third parties was concluded. As result, the property was reclassified to "Investment property".

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**Additional information**

| | Real Estate | Furniture and Fixtures | Machinery and Equipment | Vehicles | Miscellaneous | Works in progress |
|---|---|---|---|---|---|---|
| Depreciation method | Straight-line basis | Straight-line basis | Straight-line basis | Straight-line basis | Straight-line basis | - |
| Useful life (in years) | Up to 50 | 10 | Machinery: 5 Equipment: 3 | 5 | 5 | - |

## 13. INTANGIBLE ASSETS

Changes in intangible assets are included in Schedule G, accompanying these financial statements. The accounting allocation of depreciation for the year is reported in note 2.

**Additional information**

| | Other intangible assets |
|---|---|
| Defined useful life (in years) | 5 years |
| Depreciation method | Straight-line basis |

## 14. INCOME TAX

The table below shows a breakdown of "Current Income Tax Assets":

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Minimum notional income tax credit | 188,799 | 82,693 | 897 |
| Income tax prepayments | - | 1,020 | 24,229 |
| **Total current income tax assets** | **188,799** | **83,713** | **25,126** |

The table below shows a breakdown of income tax expense:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| Current income tax | - | - |
| Income tax - deferred method | 149,055 | 3,962 |
| **Subtotal – Income tax charged to the Statement of Income** | **149,055** | **3,962** |
| **Subtotal – Income tax charged to the Statement of Other Comprehensive Income** | - | - |
| **Total income tax expense** | **149,055** | **3,962** |

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The table below shows a reconciliation of the income tax liability charged to income as of December 31, 2018 and 2017 and the income tax liability resulting from applying the effective tax rate to taxable income:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| **Income for the year before income tax** | **2,200,467** | **1,134,452** |
| Effective tax rate | 30% | 30% |
| **Income for the year at the tax rate** | **660,140** | **340,336** |
| **Permanent differences at the tax rate:** | | |
| - Income (loss) from equity investments | (360,769) | (310,655) |
| - Tax-Exempt Income Law 20,455 (BHN privatization) | (1,956) | (2,549) |
| - Income (loss) Tierra del Fuego | (5,082) | (15,933) |
| - Non-taxable income | (56,400) | (35,878) |
| - Net proceeds from ProCreAr | (84,233) | (36,918) |
| - Other | (2,645) | 65,559 |
| **Total Income Tax Expense for the Year** | **149,055** | **3,962** |
| Deferred tax variation | (149,055) | (3,962) |
| **Total Income Tax for the Year Assessed for Tax Purposes** | **-** | - |
| Income tax prepayments | - | - |
| **Income Tax Liability** | **-** | **-** |

**Tax Reform:**

On December 29, 2017, the National Executive Branch enacted Income Tax Law No. 27,430. This law has introduced several changes to the previous income tax treatment. Some of the key changes involved in the reform include:

Income Tax Rate: The income tax rate for Argentine companies will be gradually reduced from 35% to 30% for fiscal years commencing on January 1, 2018 until December 31, 2019, and to 25% for fiscal years commencing on, and including, January 1, 2020.

Tax on Dividends: The law has introduced a tax on dividends or profits distributed by Argentine companies or permanent establishments, among others, to: individuals, undivided estates or foreign beneficiaries, subject to the following considerations: (i) dividends distributed out of the profits made during fiscal years commencing on January 1, 2018 until December 31, 2019 will be subject to withholding at a 7% rate; and (ii) dividends distributed out of the profits made during fiscal years commencing on January 1, 2020 and thereafter will be subject to withholding at a 13% rate.

Dividends distributed out of profits earned until the fiscal year before that commenced on January 1, 2018 will remain subject, in respect of all beneficiaries, to withholding at the 35% rate on the amount in excess of tax-free distributable accumulated profits (equalization tax transition period).

Adjusted Deductions: Acquisitions or investments made in fiscal years commencing on January 1, 2018 will be adjusted on the basis of percentage changes in the Wholesale Domestic Price Index (IPIM) reported by the INDEC, which would result in an increase in the deductible depreciation and amortization expense and the tax basis in the event of a sale.

**Deferred Income Tax Assets/Liabilities**

The table below shows changes in deferred income tax assets and liabilities:

| | Balance as of 12/31/2017 | Balance charged to income/(loss) | Balance as of 12/31/2018 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Allowance for loan losses | 53,814 | 97,210 | 151,024 |
| Bank premises & equipment | (434,533) | (338,938) | (773,471) |
| Valuation in foreign currency | (3,320) | (11,780) | (15,100) |
| Provisions | 164,715 | (60,343) | 104,372 |
| Other | 4,545 | (4,989) | (444) |
| Valuation of securities and shares | (6,172) | 5,456 | (716) |
| Tax losses | 78,590 | 164,328 | 242,918 |
| **Total deferred income tax liabilities** | **(142,361)** | **(149,055)** | **(291,417)** |

## 15. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

As mentioned in Note 2 to the consolidated financial statements, the Bank has interests in four subsidiaries. The table below shows a breakdown of the Bank's investments in subsidiaries as of December 31, 2018, December 31, 2017 and January 1, 2017:

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| BACS S.A. | 327,400 | 263,674 | 299,854 |
| BHN Sociedad de Inversión S.A. | 1,548,878 | 1,062,772 | 843,224 |
| Tarshop S.A. | 848,930 | 508,709 | 486,946 |
| BH Valores S.A. | 76,033 | 83,519 | 25,926 |
| **Total investments in subsidiaries** | **2,801,241** | **1,918,674** | **1,655,950** |

The table below shows the changes in investments in the Bank's subsidiaries, associates and joint ventures for the fiscal years ended December 31, 2018 and 2017:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| **Net Balance at the Beginning of the Year** | **1,918,674** | **1,655,950** |
| Dividends received (a) | (799,997) | (749,999) |
| Decrease in equity interest (see Note 16) | - | (22,792) |
| Irrevocable contributions (b) | 480,000 | - |
| Share of profit or loss for the year | 1,202,564 | 1,035,515 |
| **Balance at year-end** | **2,801,241** | **1,918,674** |

(a) The Shareholders' Meeting of BHN Sociedad de Inversión S.A. held on March 30, 2017 approved the distribution of dividends for Ps. 900,000 thousand, Ps. 150,000 of which were advanced during fiscal year 2016. On November 29, 2017, BHN Sociedad de Inversión S.A. paid dividends to Banco Hipotecario S.A. in the form of government securities, completing the total amount that had been approved. The Shareholders' Meeting of BHN Sociedad de Inversión S.A. held on March 28, 2018 approved the distribution of dividends on income for fiscal year 2017 for Ps. 800,000 thousand

and empowered the Board of Directors to make said distribution, as and when it deems it convenient, within the current fiscal year. Said distribution was made on October 12, 2018 by means of the transfer of Lebacs (I1708).

(b) On December 27, 2018, the Bank's Board of Directors approved an irrevocable capital contribution for Ps. 480,000 thousand to Tarshop S.A. On December 28, 2018, the transfer of said contribution was made by means of a transfer of cash.

The following is summary financial information for each subsidiary:

**Balance Sheet Summary Data**

| | BACS | | | BHN Sociedad de Inversión | | | Tarshop | | | BH Valores | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **12/31/2018** | **12/31/2017** | **01/01/2017** | **12/31/2018** | **12/31/2017** | **01/01/2017** | **12/31/2018** | **12/31/2017** | **01/01/2017** | **12/31/2018** | **12/31/2017** | **01/01/2017** |
| | (In thousands of Ps.) | | | | | | | | | | | |
| Total Assets | 3,633,882 | 2,418,427 | 1,789,539 | 2,702,304 | 1,773,446 | 1,398,941 | 6,705,507 | 6,337,343 | 5,697,817 | 110,905 | 123,109 | 37,210 |
| Total Liabilities | 3,108,191 | 1,995,064 | 1,446,860 | 1,153,423 | 710,674 | 555,628 | 5,777,897 | 5,714,987 | 5,102,672 | 30,870 | 35,194 | 9,919 |
| **Shareholders' equity** | **525,691** | **423,363** | **342,679** | **1,548,881** | **1,062,772** | **843,313** | **927,610** | **622,356** | **595,145** | **80,035** | **87,915** | **27,291** |

**Statement of Income and Statement of Comprehensive Income Summary Data**

| | BACS | | BHN Sociedad de Inversión | | Tarshop | | BH Valores | |
|---|---|---|---|---|---|---|---|---|
| | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** |
| | (In thousands of Ps.) | | | | | | | |
| Ordinary operating income | 569,891 | 490,380 | 2,962,871 | 2,268,348 | 1,387,640 | 1,413,168 | (8,818) | 88,384 |
| Income before income tax | 154,800 | (24,605) | 1,904,232 | 1,482,334 | (249,503) | 3,235 | (12,293) | 86,025 |
| Income tax | (52,482) | 5,280 | (618,034) | (518,136) | 74,759 | 23,970 | (9,469) | (25,401) |
| Other comprehensive income | - | - | - | - | - | - | - | - |
| **Total Comprehensive Income** | **102,318** | **(19,325)** | **1,286,198** | **964,198** | **(174,744)** | **27,205** | **(21,762)** | **60,624** |
| **Income Attributable to Non-Controlling Interest** | **38,594** | **(7,289)** | **-** | **-** | **(34,949)** | **5,441** | **-** | **-** |



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### Statement of Cash Flows Summary Data

| | BACS | | BHN Sociedad de Inversión | | Tarshop | | BH Valores | |
|---|---|---|---|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| | (In thousands of Ps.) | | | | | | | |
| Cash flows from operating activities | (244,904) | (53,648) | 880,077 | 872,387 | 121,554 | (673,734) | (1,113) | 2,000 |
| Cash flows from investing activities | (9,655) | (11,539) | (45,745) | 182,230 | (32,204) | (17,868) | - | - |
| Net cash flow provided by financing activities | 759,714 | 276,696 | (800,000) | (750,000) | 598,832 | 820,124 | - | - |
| **Net (Decrease) / Increase in Cash and Cash Equivalents** | **505,155** | **211,509** | **34,332** | **304,617** | **688,182** | **128,522** | **(1,113)** | **2,000** |
| Exchange gains/(losses) on cash and cash equivalents | | | | | | | | |
| **Cash and Cash Equivalents at the Beginning of the Year** | **250,363** | **38,854** | **910,660** | **606,043** | **82,734** | **(45,788)** | **2,052** | **52** |
| **Cash and Cash Equivalents at Year-End** | **755,518** | **250,363** | **944,992** | **910,660** | **770,916** | **82,734** | **939** | **2,052** |



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## 16. NEGOTIABLE OBLIGATIONS ISSUED

For information about the Bank's issuance of negotiable obligations, see Note 15 to the consolidated financial statements.

## 17. OTHER FINANCIAL LIABILITIES

The table below shows the balances of other financial liabilities as of the indicated dates:

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Credit cards consumptions payable | 2,519,162 | 2,251,420 | 1,549,661 |
| Payables from transactions pending settlement | 1,445,277 | 633,972 | 536,966 |
| Liabilities related to the transfer of non-written down financial assets (See Note 10) | 410,957 | - | - |
| Other | 209,209 | 113,607 | 75,610 |
| **Total Other Financial Liabilities** | **4,584,605** | **2,998,999** | **2,162,237** |

## 18. OTHER NON-FINANCIAL LIABILITIES

The table below shows the balances of other non-financial liabilities as of the indicated dates:

| | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| | (In thousands of Ps.) | | |
| Salaries and social security charges | 753,393 | 637,014 | 367,321 |
| Directors' and Supervisory Committee's members' fees | 125,886 | 69,637 | 25,893 |
| Tax withholdings to be deposited | 236,312 | 206,084 | 192,046 |
| Other taxes payable | 392,308 | 246,204 | 221,380 |
| Customer loyalty Program | 61,181 | 57,495 | 58,125 |
| Miscellaneous payables | 393,493 | 374,245 | 363,551 |
| **Total Other Non-financial Liabilities** | **1,962,573** | **1,590,679** | **1,228,316** |

## 19. COMMITMENTS AND CONTINGENCIES

For information about the Bank's commitments, contingencies and provisions, see Note 18 to the consolidated financial statements.

## 20. CAPITAL STRUCTURE

For information about the Bank's capital structure, see Note 19 to the consolidated financial statements.

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## 21. INTEREST AND ADJUSTMENTS INCOME/FEE AND COMMISSION INCOME

| **Interest and adjustments income** | **12/31/2018** | **12/31/2017** |
|---|---|---|
| | (In thousands of Ps.) | |
| Interest on cash and bank deposits | 163 | 160 |
| Interest on loans to the financial sector | 140,646 | 106,804 |
| Interest on overdraft facilities | 394,314 | 155,007 |
| Interest on promissory notes | 106,306 | 124,040 |
| Interest on mortgage loans | 502,825 | 517,074 |
| Interest on consumer loans | 3,274,152 | 2,296,440 |
| Interest on pledge loans | 400 | 14,535 |
| Interest on credit card loans | 4,460,725 | 3,074,532 |
| Interest on financial leases | 38,555 | 38,336 |
| Interest on other loans | 1,582,867 | 922,429 |
| Interest on government and corporate securities | 911,542 | 443,527 |
| Income from CER, CVS, UVA and UVI adjustments | 838,847 | 118,434 |
| Other | 49,643 | 337,479 |
| **Total** | **12,300,985** | **8,148,797** |

| **Fee and commission income** | **12/31/2018** | **12/31/2017** |
|---|---|---|
| | (In thousands of Ps.) | |
| Linked to lending transactions | 2,723,944 | 2,265,980 |
| Linked to borrowing transactions | 343,890 | 251,760 |
| Other commissions | 29,532 | 32,215 |
| **Total** | **3,097,366** | **2,549,955** |

## 22. INTEREST AND ADJUSTMENTS EXPENSES

| **Interest and adjustments expense** | **12/31/2018** | **12/31/2017** |
|---|---|---|
| | (In thousands of Ps.) | |
| Interest on checking account deposits | (1,015,635) | (122,156) |
| Interest on savings account deposits | (9,050) | (4,953) |
| Interest on time deposits | (3,474,099) | (2,179,791) |
| Interest on interfinancial loans received | (43,523) | (21,891) |
| Interest on other liabilities resulting from financial transactions | (5,514,085) | (2,659,755) |
| Expenses for CER, CVS, UVA and UVI adjustments | (1,029,866) | (179,857) |
| Other | (3,867) | (74,127) |
| **Total** | **(11,090,125)** | **(5,242,530)** |

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## 23. GOLD AND FOREIGN CURRENCY QUOTATION DIFFERENCES, NET

| Originated in: | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| US-dollar denominated assets | 11,073,097 | 1,699,278 |
| US-dollar denominated liabilities | (11,212,585) | (1,723,113) |
| Derivative instruments | (721,602) | (130,267) |
| Net assets denominated in Euro | 51,557 | 16,998 |
| **Quotation Differences** | **(809,533)** | **(137,104)** |

## 24. OTHER OPERATING INCOME / (EXPENSES)

| Other operating income | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| Loan servicing | 139,744 | 225,997 |
| Borrowing transactions commissions | 91,658 | 62,347 |
| Debit card commissions | 46,323 | 42,096 |
| Income from services PRO.CRE.AR | 353,985 | 345,189 |
| Penalty interest | 110,025 | 67,891 |
| Loans recovered | 157,582 | 120,717 |
| Reversal of allowances | 163,349 | 29,531 |
| Rentals | 15,709 | 12,023 |
| Measurement of investment property at fair value | 189,941 | 20,030 |
| Income from sale of non-financial assets | 1,926 | 59,436 |
| Other income | 170,312 | 91,936 |
| **Total** | **1,440,554** | **1,077,193** |

| Other operating expenses | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| Turnover tax | (1,057,174) | (744,362) |
| Other taxes | (173,753) | (151,497) |
| Loan servicing | (989,129) | (1,087,840) |
| Contribution to the deposit insurance fund | (44,257) | (33,950) |
| Charges for other provisions | (94,387) | (213,740) |
| Debit card rebates | (60,330) | (46,664) |
| Credit card rebates | (20,359) | (33,303) |
| Donations | (8,530) | (4,399) |
| Other expenses | (99,243) | (55,297) |
| **Total** | **(2,547,162)** | **(2,371,052)** |

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## 25. EXPENSES BY FUNCTION AND NATURE

The Bank presented its statement of comprehensive income under the expenditure function method. Under this method, expenses are classified according to their function as part of the item "administrative expenses."

The table below provides certain required additional information about expenses by nature and by function:

| **Administrative expenses** | **12/31/2018** | **12/31/2017** |
|---|---|---|
| | (In thousands of Ps.) | |
| Fees and compensation for services | (632,584) | (517,027) |
| Directors' fees | (126,217) | (69,637) |
| Advertising, promotion and research expenses | (53,837) | (68,919) |
| Taxes and duties | (166,329) | (143,746) |
| Maintenance and repairs | (190,331) | (195,554) |
| Electricity, gas and telephone services | (164,366) | (132,537) |
| Insurance | (14,677) | (16,564) |
| Entertainment and transportation expenses | (41,895) | (46,174) |
| Rentals | (146,873) | (125,641) |
| Miscellaneous | (283,368) | (201,110) |
| **Total** | **(1,820,477)** | **(1,516,909)** |

## 26. EMPLOYEE BENEFITS

The table below shows a breakdown of items disclosed under Employee Benefits:

| **Employee benefits** | **12/31/2018** | **12/31/2017** |
|---|---|---|
| | (In thousands of Ps.) | |
| Salaries and social security charges | (2,211,442) | (1,822,439) |
| Severance payments and bonuses | (572,997) | (1,030,522) |
| Personnel expenses | (129,252) | (113,154) |
| **Total** | **(2,913,691)** | **(2,966,115)** |

## 27. EARNINGS PER SHARE

For information about earnings per share, see Note 27 to the consolidated financial statements.

## 28. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties are entities that, either directly or indirectly through other entities, control, are under common control with, or have significant influence on, another entity's financial or operating decisions.

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The Bank controls another entity when it has the power over that entity's financial and operating decisions and also has a share of profits of such entities.

In determining this situation, consideration is given to legal aspects, as well as to the nature and substance of the relationship.

The Bank has carried out transactions with related parties at arm's length.

Principal shareholders

The Bank's principal shareholders are as follows:

| Name | Class of shares | 12/31/2018 | | 12/31/2017 | | 01/01/2017 | |
|---|---|---|---|---|---|---|---|
| | | Votes % | Capital % | Votes % | Capital % | Votes % | Capital % |
| Fondo Federal de Infraestructura Regional Assistance Trust | A | 22.86% | 44.30% | 22.86% | 44.30% | 22.89% | 44.34% |
| Employee Stock Ownership Plan | B | 1.96% | 3.80% | 1.96% | 3.80% | 1.96% | 3.80% |
| Fondo Federal de Infraestructura Regional Assistance Trust | C | 2.58% | 5.00% | 2.58% | 5.00% | 2.58% | 5.00% |
| IRSA Inversiones y Representaciones S. A. (a) | D | 46.30% | 29.91% | 46.31% | 29.91% | 46.32% | 29.91% |
| ANSES | D | 7.64% | 4.94% | 7.64% | 4.94% | 7.63% | 4.93% |
| Treasury Shares | D | 3.54% | 2.30% | 3.78% | 2.44% | 3.78% | 2.44% |
| Shares in The Bank of New York | D | 9.38% | 6.06% | 9.38% | 6.06% | 9.38% | 6.06% |
| Other | D | 5.74% | 3.69% | 5.49% | 3.55% | 5.46% | 3.52% |
| | | **100.00%** | **100.00%** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |

(a) IRSA Inversiones y Representaciones ("IRSA") owns these holdings directly and indirectly through the following subsidiaries: Tyrus S.A., Ritelco S.A., E-Commerce Latina S.A., Palermo Invest S.A., and Inversora Bolívar S.A.

Controlled entities / Subsidiaries

Below is a detail of the Bank's related parties and the nature of the existing relationship with each of them:

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| Name | Nature | PERCENTAGE INTEREST | | | | | |
|---|---|---|---|---|---|---|---|
| | | 12/31/2018 | | 12/31/2017 | | 01/01/2017 | |
| | | Direct | Direct and indirect | Direct | Direct and indirect | Direct | Direct and indirect |
| BACS Banco de Crédito y Securitización S.A. | Control | 62.28% | 62.28% | 62.28% | 62.28% | 87.50% | 87.50% |
| BHN Sociedad de Inversión S.A | Control | 99.99% | 100.00% | 99.99% | 100.00% | 99.99% | 100.00% |
| Tarshop S.A. | Control | 80.00% | 80.00% | 80.00% | 80.00% | 80.00% | 80.00% |
| BH Valores S.A. | Control | 95.00% | 100.00% | 95.00% | 100.00% | 95.00% | 100.00% |
| CHA Financial Trusts Series VI to VIII | Control | - | - | - | - | 100.00% | 100.00% |
| CHA Financial Trusts Series IX to XIV | Control | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

**Directors' Fees**

According to Law No. 19,550, the fees payable to the Board of Directors, if not established in an entity's by-laws, should be set by the Shareholders' Meeting. The Bank's by-laws provide that total fees payable to directors will be limited to five per cent (5 %) of after-tax profits for the fiscal year at issue when no cash dividends are distributed for whatsoever reason, and will be increased on a proportional basis to cash dividends, if available, until reaching fifteen per cent (15 %) of taxable income.

Some of the Bank's directors were hired under Employment Contract Law No. 20,744. This law sets forth certain employment conditions, including, without limitation, salaries, income protection, working hours, vacations, paid leaves, minimum age requirements, workers' protection, and manners to suspend or terminate employment contracts. The fees payable every year to our directors are determined in accordance with the guidelines set forth in Law No. 19,550, taking into account whether directors perform technical-administrative duties and based on the profits made during the year. Once the fees payable to directors are determined, they are submitted to the Shareholders' Meeting for approval.

**Compensation payable to the Key Management Personnel**

The members of our senior management are designated and removed by the Board of Directors and perform their duties following the instructions delivered by the Board.

As compensation for their duties, our Key Management Personnel earns a fixed amount determined by reference to their background, skills and experience, and a variable bonus which is paid on an annual basis and is tied to individual performance and the results of our operations.

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As of December 31, 2018, the Bank's key personnel was comprised of a general manager and thirteen area managers.

**Corporate Services Contracts**

In the light of the fact that subsidiaries have operating areas that share certain common characteristics, the Bank implemented alternatives to cut certain fixed costs inherent to its business streamlining the individual efficiencies of each of the companies in the several areas comprising operating management.

Costs and rewards of corporate services agreements are allocated on the basis of operating efficiencies and equity, without pursuing individual profits for each of the companies.

Below is a detail of the services areas included in the corporate services agreements:

| Entity | Services area |
|---|---|
| BACS | Human resources, financial services, IT services, procurement and contracting, accounts payable, overall secretarial, legal advice services and exclusive use by BACS of a space within the Bank's Vault. |
| Tarshop | Procurement and general services; asset maintenance, management and administration; fraud prevention and control in connection with credit cards issued by Tarshop; mail; internal audit; oversight and control of agencies and agents; IT security and SAP system maintenance; and finance services. |
| BHN Vida y BHN Seguros Generales (a) | Human resources; procurement and contracting; maintenance; internal audit; asset management; general services; accounts payable; overall secretarial services; legal advice and supervision; supply, maintenance and administration of communication and IT items; SAP maintenance, and sale of insurance policies through call centers. Furthermore, the companies provided insurance-related services to the Bank, including operating, claim-processing, and system-related services until July 2, 2018. |

(a) Controlled by BHN Sociedad de Inversión.

**Legal Services**

The Bank retains the legal services of Estudio Zang, Bergel & Viñes. Saúl Zang is a partner to such law firm and is also a member of the Board of the Bank's subsidiaries.

**Trading of Financial Assets**

Idle funds are usually placed in several instruments, including those issued by related companies, which are purchased at the time of issuance or from independent third parties in the secondary market.

**Financial Transactions**

In the ordinary course of business, the Bank enters into related party credit facility agreements. The interest rate on these facilities is determined at an arm's length.

In addition, the Bank and BACS usually act as placement agents in certain related parties' transactions carried out in the capital market.

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Below is a detail of the most significant balances and transactions with related parties as of December 31, 2018:

| Related party | Derivative instruments | Other debt securities | Loans and other financing arrangements | Other financial assets | Other non-financial assets | Deposits | Negotiable obligations issued | Other non-financial liabilities |
|---|---|---|---|---|---|---|---|---|
| | (In thousands of Ps.) | | | | | | | |
| BACS | - | - | 1,264 | 2,769 | - | 96,333 | - | - |
| Tarshop | - | 2,396,018 | 619,529 | 1,809 | - | 789,937 | - | - |
| BHN Sociedad de Inversión | - | - | - | 42,014 | - | 202,966 | 103,778 | - |
| BH Valores | - | - | - | - | - | 912 | - | - |
| Financial Trusts CHA IX to XIV | 1,360,536 | - | - | - | - | 4,242 | - | - |
| **Total subsidiaries** | **1,360,536** | **2,396,018** | **620,793** | **46,592** | **-** | **1,094,390** | **103,778** | **-** |
| Zang Bergel y Viñes Law Firm | - | - | - | - | - | - | - | 1 |
| Directors | - | - | - | - | 41,186 | - | - | 125,886 |
| **Total other** | **-** | **-** | **-** | **-** | **41,186** | **-** | **-** | **125,887** |
| **Total** | **1,360,536** | **2,396,018** | **620,793** | **46,592** | **41,186** | **1,094,390** | **103,778** | **125,887** |

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| Related party | Interest income | Interest expense | Commission income | Employee benefits | Administrative expenses |
|---|---|---|---|---|---|
| | (In thousands of Ps.) | | | | |
| BACS | 7,264 | - | 1,033 | - | - |
| Tarshop | 833,669 | 7,582 | 5,137 | - | - |
| BHN Sociedad de Inversión | - | 21,902 | 242,110 | - | 21,039 |
| Financial Trusts CHA IX to XIV | - | 24,297 | - | - | - |
| **Total subsidiaries** | **840,933** | **53,781** | **248,280** | **-** | **21,039** |
| Zang Bergel y Viñes Law Firm | - | - | - | - | 2,353 |
| Directors | - | - | - | - | 126,217 |
| Key management personnel | - | - | - | 216,022 | - |
| **Total other** | **-** | **-** | **-** | **216,022** | **128,570** |
| **Total** | **840,933** | **53,781** | **248,280** | **216,022** | **149,609** |

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Below is a breakdown of the most significant balances and transactions with related parties as of December 31, 2017:

| Related Party | Derivative instruments | Other debt securities | Loans and other financing arrangements | Other financial assets | Other non-financial assets | Deposits | Negotiable obligations issued | Other financial liabilities | Other non-financial liabilities |
|---|---|---|---|---|---|---|---|---|---|
| | (In thousands of Ps.) | | | | | | | | |
| BACS | - | - | 16,098 | 1,480 | - | 156,866 | - | 11,584 | - |
| Tarshop | - | 1,587,350 | - | 242 | - | 32,755 | - | - | - |
| BHN Sociedad de Inversión | - | - | - | 36,771 | - | 6,320 | 53,547 | 36,204 | - |
| BH Valores | - | - | - | - | - | 2,014 | - | - | - |
| Financial Trusts CHA IX to XIV | 666,436 | - | - | - | - | 4,618 | - | - | - |
| **Total subsidiaries** | **666,436** | **1,587,350** | **16,098** | **38,493** | **-** | **202,573** | **53,547** | **47,788** | **-** |
| Zang Bergel y Viñes Law Firm | - | - | - | - | - | - | - | - | 1 |
| Directors | - | - | - | - | 32,428 | - | - | - | 69,637 |
| **Total other** | **-** | **-** | **-** | **-** | **32,428** | **-** | **-** | **-** | **69,638** |
| **Total** | **666,436** | **1,587,350** | **16,098** | **38,493** | **32,428** | **202,573** | **53,547** | **47,788** | **69,638** |

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| Related Party | Interest income | Interest expense | Commission income | Employee benefits | Administrative expenses |
|---|---|---|---|---|---|
| | (In thousands of Ps.) | | | | |
| BACS | 73,728 | - | 5,400 | - | - |
| Tarshop | 433,149 | - | - | - | - |
| BHN Sociedad de Inversión | - | 3,900 | 86,945 | - | - |
| Financial Trusts CHA IX to XIV | - | 16,288 | - | - | - |
| **Total subsidiaries** | **506,877** | **20,188** | **92,345** | **-** | **-** |
| Zang Bergel y Viñes Law Firm | - | - | - | - | 3,713 |
| Directors | - | - | - | - | 69,637 |
| Key management personnel | - | - | - | 115,182 | - |
| **Total other** | **-** | **-** | **-** | **115,182** | **73,350** |
| **Total** | **506,877** | **20,188** | **92,345** | **115,182** | **73,350** |

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Below is a breakdown of the most significant balances and transactions with related parties as of January 1, 2017:

| Related Party | Derivative instruments | Other debt securities | Loans and other financing arrangements | Other financial assets | Other non-financial assets | Deposits | Negotiable obligations issued | Other financial liabilities | Other non-financial liabilities |
|---|---|---|---|---|---|---|---|---|---|
| | (In thousands of Ps.) | | | | | | | | |
| BACS | - | - | 33,342 | 9,443 | - | 3,426 | - | 21,590 | - |
| Tarshop | - | 1,885,135 | - | 1,898 | - | 51,628 | - | - | - |
| BHN Sociedad de Inversión | - | - | - | 31,317 | - | 3,887 | 11,987 | 31,048 | - |
| BH Valores | - | - | - | - | - | 15 | - | - | - |
| Financial Trusts CHA VI to XIV | 620,080 | - | - | - | - | 5,321 | - | - | - |
| **Total subsidiaries** | **620,080** | **1,885,135** | **33,342** | **42,658** | **-** | **64,277** | **11,987** | **52,638** | **-** |
| Zang Bergel y Viñes Law Firm | - | - | - | - | - | - | - | - | 1 |
| Directors | - | - | - | - | 25,889 | - | - | - | 25,893 |
| **Total other** | **-** | **-** | **-** | **-** | **25,889** | **-** | **-** | **-** | **25,894** |
| **Total** | **620,080** | **1,885,135** | **33,342** | **42,658** | **25,889** | **64,277** | **11,987** | **52,638** | **25,894** |

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## 29. FINANCIAL RISK FACTORS

### Comprehensive Risk Management

The Bank relies on a comprehensive process to manage risks that includes identifying, assessing, tracking, controlling and mitigating all significant risks. The comprehensive process for managing risks is geared towards having the Board of Directors and Senior Management involved in the management of all significant risks and having them oversee such management and understand the nature and level of risk taken on by the entity and how such risk relates to capital adequacy.

In addition, it is in line with the best practices in risk management and, in particular, with the Argentine Central Bank's guidelines for financial institutions' risk management. To make sure that its significant risks are properly managed, the Bank relies on a management framework and on management devices that are fitting to its size, complexity, economic weight and risk profile.

### a) Credit Risk:

See the overview of credit risk management principles, policies and procedures in Note 30.a) to the consolidated financial statements.

Below is a detail of the credit quality of the Bank's financial assets:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | (In thousands of Ps.) | |
| **Government and Corporate Securities** | **21,358,028** | **15,647,042** |
| Measured at fair value through profit or loss | 17,106,724 | 13,838,629 |
| Measured at amortized cost | 3,367,251 | 1,628,027 |
| Investments in equity instruments | - | 4,518 |
| Financial trust participation certificates | 32,908 | 58,101 |
| Pledged as collateral | 851,145 | 117,767 |
| **Loans and other financing arrangements** | **41,696,540** | **34,685,349** |
| Commercial Portfolio | 15,421,854 | 13,043,959 |
| Performing | 15,278,861 | 13,033,704 |
| Non-performing | 142,993 | 10,255 |
| Consumer Portfolio | 26,274,686 | 21,641,390 |
| Performing | 24,848,008 | 21,054,841 |
| Non-performing | 1,426,678 | 586,549 |
| **Other Financial Assets** | **2,647,024** | **2,593,087** |

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Impairment of Financial Instruments

The Bank accounts for Loans according to the type of loan portfolio, by performing an individual analysis of each customer within the “Commercial Portfolio” or “Consumer Comparable Portfolio” and a massive analysis based on days in arrears for customers within the “Consumer Portfolio.” The criteria followed by the Bank to set up allowances are detailed in Note 7.

Loans and other financing arrangements according to maturity term are included in Schedule D accompanying these financial statements.

Changes in allowances for loan losses for the year are included in Schedule R accompanying these financial statements.

Loans Written-Off

All loans within the consumer portfolio that must be fully accounted for in accordance with the applicable rules in force are written off one month after the date on which such provision is made. The balances of loans written-off as of December 31, 2018 and 2017 amounted to Ps. 1,189,234 thousand and Ps. 901,826 thousand, respectively.

**b) Market Risk**

See the overview of market risk management principles, policies and procedures in Note 30.b) to the consolidated financial statements.

The tables below show the Bank's exposure to foreign exchange risk as of December 31, 2018 and 2017 by type of currency:

| | **12/31/2018** | | | | **12/31/2017** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Monetary Financial Assets** | **Monetary Financial Liabilities** | **Derivative Instruments** | **Net position** | **Monetary Financial Assets** | **Monetary Financial Liabilities** | **Derivative Instruments** | **Net position** |
| | (In thousands of Ps.) | | | | | | | |
| Dollar | 15,179,337 | 20,055,565 | 3,032,655 | **(1,843,573)** | 9,161,057 | (10,831,324) | 380,502 | **(1,289,765)** |
| Euro | 58,312 | 105 | - | **58,207** | 71,857 | (53) | - | **71,804** |
| **Total** | **15,237,649** | **20,055,670** | **3,032,655** | **(1,785,366)** | **9,232,914** | **(10,831,377)** | **380,502** | **(1,217,961)** |

Derivative instruments are measured at the fair value of the respective currency at year-end.

The preceding table includes monetary assets and liabilities only, since investments in equity instruments and non-monetary instruments do not result in market risk exposure.

The following is a sensitivity analysis of income (loss) and shareholders’ equity to reasonable changes in the preceding exchange rates relative to the Bank's functional currency, considering an instant variation in exposure as of the closing date.

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| Currency | Variation | 12/31/2018 | | 12/31/2017 | |
|---|---|---|---|---|---|
| | | Income / (loss) | Shareholders' equity | Income / (loss) | Shareholders' equity |
| | | (In thousands of Ps.) | | | |
| U.S. dollar | 10% | 106,215 | 106,215 | (1,098) | (1,098) |
| | -10% | (106,215) | (106,215) | 1,098 | 1,098 |
| Euro | 10% | 5,821 | 5,821 | 7,180 | 7,180 |
| | -10% | (5,821) | (5,821) | (7,180) | (7,180) |

**c) Interest Rate Risk:**

See the overview of interest rate risk management principles, policies and procedures in Note 30.c) to the consolidated financial statements.

The table below shows the "Value at Risk" (VaR) for three months, with a 99% confidence level for interest rate risk as of December 31, 2018 and 2017.

| | ***12/31/2018*** | ***12/31/2017*** |
|---|---|---|
| *Minimum for the Period* | 851,743 | 230,818 |
| *Maximum for the Period* | 893,084 | 501,031 |
| *Average for the Period* | 878,117 | 349,994 |
| *At Year-End* | 893,084 | 501,031 |

The table below shows the Bank's exposure to interest rate risk. Such table shows the residual value of assets and liabilities, classified as the sooner of the interest renegotiation date or the maturity date.

| **Assets and Liabilities at Floating rate (Ps.)** | Term (in days) | | | | | |
|---|---|---|---|---|---|---|
| | Up to 30 | 30 to 90 | 90 to 180 | 180 to 365 | Over 365 | **Total** |
| | (In thousands of Ps.) | | | | | |
| **As of 12/31/2107** | | | | | | |
| Total Financial Assets | 16,957,508 | 5,168,220 | 3,397,180 | 3,677,001 | 12,395,762 | **41,595,671** |
| Total Financial Liabilities | (24,489,504) | (3,241,563) | (939,764) | (1,935,145) | (4,763,174) | **(35,369,150)** |
| **Net Amount** | **(7,531,996)** | **1,926,657** | **2,457,416** | **1,741,856** | **7,632,588** | **6,226,521** |
| **As of 12/31/2108** | | | | | | |
| Total Financial Assets | 24,075,679 | 2,765,345 | 2,559,778 | 3,006,016 | 15,526,157 | **47,932,975** |
| Total Financial Liabilities | (27,636,874) | (4,482,998) | (628,940) | (3,703,172) | (5,093,235) | **(41,545,219)** |
| **Net Amount** | **(3,561,195)** | **(1,717,653)** | **1,930,838** | **(697,156)** | **10,432,922** | **6,387,756** |

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| Assets and Liabilities at Floating rate (US dollars) | Term (in days) | | | | | |
|---|---|---|---|---|---|---|
| | Up to 30 | 30 to 90 | 90 to 180 | 180 to 365 | Over 365 | **Total** |
| | (In thousands of Ps.) | | | | | |
| **As of 12/31/2107** | | | | | | |
| Total Financial Assets | 878,219 | 791,014 | 387,617 | 1,335,302 | 8,044,926 | **11,437,078** |
| Total Financial Liabilities | (986,973) | (871,218) | (202,530) | (400,308) | (8,976,049) | **(11,437,078)** |
| **Net Amount** | **(108,754)** | **(80,204)** | **185,087** | **934,994** | **(931,123)** | **-** |
| **As of 12/31/2108** | | | | | | |
| Total Financial Assets | 741,099 | 1,687,832 | 1,057,242 | 2,090,861 | 15,021,035 | **20,598,069** |
| Total Financial Liabilities | (1,403,570) | (568,730) | (395,028) | (566,496) | (17,664,245) | **(20,598,069)** |
| **Net Amount** | **(662,471)** | **1,119,102** | **662,214** | **1,524,365** | **(2,643,210)** | **-** |

The table below shows the sensitivity to a potential change in interest rates, all other variables held constant, in the Statement of Income and Statement of Changes in Shareholders' Equity, before income tax.

Sensitivity in the Statement of Income is the effect of estimated changes in interest rates on net financial income for a given year, before income tax, based on financial assets and liabilities as of December 31, 2018 and 2017.

Sensitivity in shareholders' equity is calculated by means of a revaluation of financial assets, net, before income tax, as of December 31, 2018 and 2017, for the effects of estimated changes in interest rates:

| **Currency** | **As of December 31, 2018** | | | | | |
|---|---|---|---|---|---|---|
| | **Changes in Basis Points** | | **Sensitivity in Shareholders' Equity** [(2)] | | **Sensitivity in Net Income (Loss) within 1 Year** | |
| | | | (In thousands of Ps.) | | | |
| Foreign currency [(1)] | +/- | 50 | +/- | 63,791 | +/- | 2,091 |
| Foreign currency [(1)] | +/- | 75 | +/- | 95,317 | +/- | 3,111 |
| Foreign currency [(1)] | +/- | 100 | +/- | 126,599 | +/- | 4,113 |
| Foreign currency[(1)] | +/- | 150 | +/- | 188,445 | +/- | 6,067 |
| Peso | +/- | 50 | +/- | 31,173 | +/- | 25,464 |
| Peso | +/- | 75 | +/- | 46,619 | +/- | 38,210 |
| Peso | +/- | 100 | +/- | 61,972 | +/- | 50,965 |
| Peso | +/- | 150 | +/- | 92,403 | +/- | 76,503 |

*[(1)] In calculating amounts in foreign currency, the Bank used a 7.5% flat curve.*
*[(2)] Impairment of the Peso-denominated portfolio in shareholders' equity is associated with a rise in interest rates, while impairment of the foreign-currency denominated portfolio is associated with a decline in interest rates.*

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| Currency | As of December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Changes in Basis Points | | Sensitivity in Shareholders' Equity [2] | | Sensitivity in Net Income (Loss) within 1 Year | |
| | | | (In thousands of Ps.) | | | |
| Foreign Currency [1] | +/- | 50 | +/- | 19,031 | +/- | 1,481 |
| Foreign Currency[1] | +/- | 75 | +/- | 28,706 | +/- | 2,236 |
| Foreign Currency[1] | +/- | 100 | +/- | 38,479 | +/- | 3,000 |
| Foreign Currency[1] | +/- | 150 | +/- | 58,302 | +/- | 4,556 |
| Peso | +/- | 50 | +/- | 52,063 | +/- | 14,116 |
| Peso | +/- | 75 | +/- | 77,734 | +/- | 21,174 |
| Peso | +/- | 100 | +/- | 103,172 | +/- | 28,232 |
| Peso | +/- | 150 | +/- | 153,364 | +/- | 42,348 |

*[1] In calculating amounts in foreign currency, the Bank used a 7.5% flat curve.*
*[2] Impairment of the Peso-denominated portfolio in shareholders' equity is associated with a rise in interest rates, while impairment of the foreign-currency denominated portfolio is associated with a decline in interest rates.*

**d) Liquidity Risk**

See the overview of liquidity risk management principles, policies and procedures in Note 30.d) to the consolidated financial statements.

The table below shows the Bank's liquidity ratios for the fiscal years ended December 31, 2018 and 2017:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Average during the year | 185% | 148% |
| Higher | 225% | 231% |
| Lower | 133% | 118% |

The breakdown of financial assets and liabilities by maturity are disclosed in Schedule D "Breakdown of Loans and Other Financing Arrangements by Maturity Dates" and Schedule I "Breakdown of Financial Liabilities by Maturity Dates" to these financial statements, respectively.

## 30. CAPITAL MANAGEMENT

The Bank's capital management goals are:

- fulfilling the requirements established by the BCRA in its Communication "A" 6260, as amended; and
- supporting the Bank's operations to prevent any situation that may endanger them.

As of December 31, 2018 and 2017, the Bank's total capital under management and subject to regulation amounted to 1,500,000 (see Note 20 to the consolidated financial statements).

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(Partner)
C.P.C.E.C.A.B.A. T° 1 - F° 17

According to the BCRA's guidelines, financial institutions are required to maintain certain capital ratios to mitigate the associated risks. The Bank has met the minimum capital requirement determined in accordance with the BCRA's rules.

Regulatory Capital (*Responsabilidad Patrimonial Computable*) is comprised by Core Capital and Supplementary Capital. The table below shows a breakdown of the respective balances:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Core Capital | | |
| Tier 1 Ordinary Capital | 9,538,733 | 7,408,551 |
| (Deductible items) | (2,858,579) | (1,621,634) |
| Tier 1 Additional Capital | - | - |
| Supplementary Capital | | |
| Tier 2 Capital | 374,800 | 317,752 |
| (Deductible items) | (374,800) | (317,752) |
| **Regulatory Capital (*Responsabilidad Patrimonial Computable*)** | **6,680,154** | **5,786,917** |

Below is a detail of the determined capital requirement:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Credit risk | 3,504,522 | 2,632,698 |
| Market risk | 345,432 | 414,771 |
| Operational risk | 759,203 | 639,467 |
| **Core requirement** | **4,609,157** | **3,686,936** |
| **Payment** | **6,680,154** | **5,786,917** |
| **Surplus / (Deficit)** | **2,070,997** | **2,099,981** |

## 31. NOTES REQUIRED BY THE ARGENTINE CENTRAL BANK

### 31.1. Deposit Insurance

For a description of the deposit insurance, see Note 32.1. to the consolidated financial statements.

### 31.2. Restricted Assets

For a description of the Bank's restricted assets, see Note 32.2. to the consolidated financial statements.

### 31.3. Trust Activities

For a description of the Bank's trust activities, see Note 32.3. to the consolidated financial statements.

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(Partner)
C.P.C.E.C.A.B.A. T° 1 - F° 17

**31.4. Compliance with the Regulations Required by the C.N.V.**

For the information required to comply with the regulations handed down by the CNV, see Note 32.4. to the consolidated financial statements.

**31.5. Accounts Showing Compliance with Minimum Cash Requirements**

For information about the Bank's compliance with the minimum cash requirement, see Note 32.5. to the consolidated financial statements.

**31.6. Penalties Imposed on the Bank and Summary Proceedings Initiated by the Argentine Central Bank and Other Regulatory Authorities**

For a description of the Bank's summary proceedings, see Note 32.6. to the consolidated financial statements.

**31.7. Restrictions on the Distribution of Profits**

For information about the restrictions on the distribution of profits, see Note 32.7. to the consolidated financial statements.

**31.8. Capital Management and Corporate Governance Transparency Policy**

For an overview of the Bank's capital management and corporate governance transparency policy, see Note 32.8. to the consolidated financial statements.

**32. SUBSEQUENT EVENTS**

For information about subsequent events, see Note 33 to the consolidated financial statements.

**33. RUBRICATION OF BOOKS**

At the date of these financial statements, the transactions conducted by the Bank had been recorded in the rubricated books, as called for by the regulations in force.

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(Partner)
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## 34. FINANCIAL STATEMENTS PUBLICATION

In line with the guidelines of Communication "A" 760, the prior involvement of the Argentine Central Bank is not required in order to publish these financial statements.

The document drafted pursuant to the provisions of Communication “A” 5394 issued by the Argentine Central Bank discloses information on Banco Hipotecario S.A.’s regulatory capital structure and sufficiency, risk exposure and management, on a stand-alone basis and in consolidated form with its subsidiaries.

Pursuant to the law, the referred document is posted on the Bank’s website (http://www.hipotecario.com.ar), by accessing the following link: “Market Discipline – Minimum Disclosure Requirements.”

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

………………………..(Partner)
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**SCHEDULE A – GOVERNMENT AND CORPORATE SECURITIES**
For the fiscal year ended 12/31/2018
Comparative as of 12/31/2017 and 01/01/2017
In thousands of Argentine Pesos

| Description | Identification | Holding | | | | | Position | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Fair value | Fair value level | Book value as of 12/31/2018 | Book value as of 12/31/2017 | Book value as of 01/01/2017 | Position without Options | Options | Final position |
| **DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS** | | | | **17,106,724** | **13,838,629** | **2,645,739** | **17,106,724** | **-** | **17,106,724** |
| **Argentina** | | | | | | | | | |
| **Government securities** | | | | | | | | | |
| Argentine Bond in USD due 05/06/24 | 05458 | - | 1 | 392,060 | 231,064 | (1,030,603) | 392,060 | - | 392,060 |
| Argentine Bond in USD due 02/13/20 | 05486 | - | 1 | 335,754 | - | - | 335,754 | - | 335,754 |
| Treasury bills in USD | | - | 1 | 284,726 | 718,639 | 742,238 | 284,726 | - | 284,726 |
| Argentine Bonds in USD due 04/04/21 | 92582 | - | 1 | 271,594 | 92,859 | - | 271,594 | - | 271,594 |
| Argentine Bonds in USD due 06/21/19 | 05329 | - | 1 | 228,283 | - | - | 228,283 | - | 228,283 |
| Argentine Bonds in Pesos due 02/08/19 | 05323 | - | 1 | 220,791 | - | - | 220,791 | - | 220,791 |
| Argentine Bond in USD due 10/08/20 | 05468 | - | 1 | 206,433 | 56,851 | 1,679 | 206,433 | - | 206,433 |
| Argentine Bond in USD due 04/01/19 | 92581 | - | 1 | 170,792 | 3,015 | - | 170,792 | - | 170,792 |
| Debt security Province of Chubut cl. 2 in USD due 03/29/21 | 32487 | - | 1 | 105,574 | 86,256 | 84,150 | 105,574 | - | 105,574 |
| Treasury bills in Pesos | | - | 1 | 99,082 | - | - | 99,082 | - | 99,082 |
| Treasury bills in Pesos | | - | 2 | 26 | - | - | 26 | - | 26 |
| Argentine Bond in Pesos due 03/06/20 | 05485 | - | 1 | 45,414 | - | - | 45,414 | - | 45,414 |
| Debt security Province of Bs.As. series I cl. 2 in Pesos due 12/06/19 | 32831 | - | 2 | 44,319 | 51,576 | 50,891 | 44,319 | - | 44,319 |
| Debt security Province of Bs.As. floating rate in Pesos due 05/31/22 | 32911 | - | 1 | 18,472 | - | - | 18,472 | - | 18,472 |
| Treasury Bond in Pesos due 04/27/20 | 05321 | - | 1 | 15,750 | - | 23,288 | 15,750 | - | 15,750 |
| Argentine Bond in Pesos due 09/29/38 | 45695 | - | 1 | 163 | 9,066 | 842 | 163 | - | 163 |
| GDP-linked Argentine Bond in Pesos due 12/15/36 | 45698 | - | 1 | 1 | 1,305 | 1,038 | 1 | - | 1 |
| Discount Argentine Bond in USD due 12/29/33 | 40791 | | | - | 312,791 | 308,703 | - | - | - |
| Argentine Bond in USD due 03/17/18 | 05462 | | | - | 228,487 | 79 | - | - | - |
| Argentine Bond in USD due 04/22/26 | 92584 | | | - | 100,091 | | - | - | - |
| Debt security Province of Neuquén series 1 cl. 2 in Pesos due 10/11/18 | 32267 | | | - | 84,127 | 141,632 | - | - | - |
| Argentine Bond in USD due 06/28/17 | 92610 | | | - | 78,103 | | - | - | - |
| Argentine Bond in USD due 04/22/46 | 92580 | | | - | 51,600 | | - | - | - |
| Argentine Bond in USD due 12/30/38 | 40792 | | | - | 49,934 | 119,081 | - | - | - |
| GDP-linked Argentine Bond in EUR due 12/14/35 | 40785 | | | - | 36,920 | 22,460 | - | - | - |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

………………………..(Partner)
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**SCHEDULE A – GOVERNMENT AND CORPORATE SECURITIES**
For the fiscal year ended 12/31/2018
Comparative as of 12/31/2017 and 01/01/2017
In thousands of Argentine Pesos

| Description | Identification | Holding | | | | | Position | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Fair value | Fair value level | Book value as of 12/31/2018 | Book value as of 12/31/2017 | Book value as of 01/01/2017 | Position without Options | Options | Final position |
| Argentine Bond in USD due 04/18/25 | 05481 | | | - | 34,640 | - | - | - | - |
| Argentine Bond in USD due 04/18/37 | 05482 | | | - | 29,711 | - | - | - | - |
| Argentine Bond in USD due 01/26/27 | 92585 | | | - | 24,459 | - | - | - | - |
| Argentine Bond in USD due 12/30/38 | 45699 | | | - | 23,693 | 40,309 | - | - | - |
| Argentine Bond in Pesos with CER adjustment due 12/30/33 | 45696 | | | - | 22,114 | (2,403) | - | - | - |
| Argentine Bond in USD due 07/01/36 | 92579 | | | - | 21,033 | - | - | - | - |
| Argentine Bond in USD due 07/06/28 | 92578 | | | - | 20,820 | - | - | - | - |
| Argentine Bond in Pesos due 04/03/22 | 05480 | | | - | 13,000 | - | - | - | - |
| GDP-linked Argentine Bond in USD due 12/14/35 | 40790 | | | - | 9,750 | - | - | - | - |
| Argentine Bond in USD due 12/29/33 | 45700 | | | - | 9,066 | 5,123 | - | - | - |
| Argentine Bond in Pesos due 12/29/45 | 45697 | | | - | 6,012 | 17,502 | - | - | - |
| GDP-linked Argentine Bond in USD due 12/15/35 | 45701 | | | - | 5,784 | 4,353 | - | - | - |
| Debt security Province of Chubut series I due 10/20/19 | 32271 | | | - | 5,684 | 13,406 | - | - | - |
| Argentine Bond in USD due 01/26/22 | 92583 | | | - | 1,532 | - | - | - | - |
| Argentine Bond in USD due 12/31/33 | 05443 | | | - | 1,402 | - | - | - | - |
| Treasury Bond in Pesos due 10/17/23 | 05319 | | | - | - | 270,993 | - | - | - |
| Argentine Bond in Pesos due 05/08/17 | 05477 | | | - | - | 164,710 | - | - | - |
| Argentine Bond in USD due 04/22/26 | 91660 | | | - | - | 158,549 | - | - | - |
| Argentine Bond in Pesos due 10/08/17 | 05467 | | | - | - | 101,090 | - | - | - |
| Argentine Bond in USD 09/20/17 | 05465 | | | - | - | 79,760 | - | - | - |
| Argentine Bond in Pesos due 10/13/20 | 05476 | | | - | - | 77,511 | - | - | - |
| Argentine Bond in Pesos with CER adjustment due 02/03/18 | 02405 | | | - | - | 74,671 | - | - | - |
| Argentine Bond in Pesos due 03/10/19 | - | | | - | - | 34,794 | - | - | - |
| Argentine Bond in USD due 02/21/17 | - | | | - | - | 30,992 | - | - | - |
| Argentine Bond in USD due 06/08/17 | - | | | - | - | 19,716 | - | - | - |
| Treasury Bond in Pesos due 03/05/18 | - | | | - | - | 14,330 | - | - | - |
| Treasury Bond in Pesos due 10/03/21 | - | | | - | - | 7,517 | - | - | - |
| Argentine Bond in USD due 04/22/46 | - | | | - | - | 3,441 | - | - | - |
| Argentine Bond in USD due 07/06/28 | - | | | - | - | 2,388 | - | - | - |
| Treasury Bond in Pesos due 09/19/18 | - | | | - | - | 1,414 | - | - | - |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
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Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

………………………..(Partner)
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**SCHEDULE A – GOVERNMENT AND CORPORATE SECURITIES**
For the fiscal year ended 12/31/2018
Comparative as of 12/31/2017 and 01/01/2017
In thousands of Argentine Pesos

| Description | Identification | Holding | | | | | Position | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Fair value | Fair value level | Book value as of 12/31/2018 | Book value as of 12/31/2017 | Book value as of 01/01/2017 | Position without Options | Options | Final position |
| Debt security Province of Córdoba series I in USD due 12/06/17 | - | | | - | - | 1,177 | - | - | - |
| Argentine Bond in Pesos due 08/11/18 | - | | | - | - | (606) | - | - | - |
| Argentine Bond in Pesos due 03/27/17 | - | | | - | - | (14,864) | - | - | - |
| Treasury Bond in Pesos due 07/22/21 | - | | | - | - | (20,096) | - | - | - |
| Argentine Bond in USD due 04/19/17 | - | | | - | - | (94,818) | - | - | - |
| Other | - | | | - | 11 | 1,305 | - | - | - |
| **BCRA Bills** | | | | | | | | | |
| BCRA Liquidity Bills | - | - | 1 | 14,562,795 | - | - | 14,562,795 | - | 14,562,795 |
| BCRA Bills | - | | | - | 10,960,362 | 792,116 | - | - | - |
| **Corporate securities** | | | | | | | | | |
| Debt security Financial Trust CHA series 9 to 14 | | - | 2 | 55,011 | - | 23 | 55,011 | - | 55,011 |
| Debt security Financial Trust Tarshop | | - | 2 | 23,233 | - | - | 23,233 | - | 23,233 |
| Financial Trust Best Consumer Directo S.3 "A" CG in Pesos | 53850 | - | 2 | 12,519 | - | - | 12,519 | - | 12,519 |
| BHSA Negotiable Obligations | | - | 2 | 8,248 | 358,012 | 366,440 | 8,248 | - | 8,248 |
| Debt security Financial Trust CHA Uva Series 1 | 53490 | - | 2 | 282 | - | - | 282 | - | 282 |
| Electric System Negotiable Obligation series 2 due 05/15/20 | 52464 | | | - | 92,712 | - | - | - | - |
| Emgasud Negotiable Obligation series 2 due 09/30/17 | 36614 | | | - | - | 11,312 | - | - | - |
| Other | - | - | 2 | 5,402 | 6,148 | 18,106 | 5,402 | - | 5,402 |
| **OTHER DEBT SECURITIES** | - | - | - | **3,391,336** | **1,644,168** | **1,970,608** | **3,391,336** | - | **3,391,336** |
| **Measured at amortized cost** | | | | | | | | | |
| **Argentine** | | | | | | | | | |
| **Government securities** | | | | | | | | | |
| Treasury Bond due 11/21/20 | 05330 | 982,905 | 2 | 982,905 | - | - | 982,905 | - | 982,905 |
| **Corporate securities** | | | | | | | | | |
| Debt security Financial Trust Tarshop | - | 2,396,017 | 2 | 2,396,017 | 1,587,350 | 1,885,135 | 2,396,017 | - | 2,396,017 |
| Debt security Financial Trust BACS Prendas | 80002 | - | | - | - | 17,016 | - | - | - |
| Debt security Financial Trust CHA series 7 to 14 | - | - | | - | 50,927 | 67,607 | - | - | - |
| Other Financial Trusts debt securities | - | 12,414 | 2 | 12,414 | 5,891 | 850 | 12,414 | - | 12,414 |
| **EQUITY INSTRUMENTS** | - | - | - | - | **4,518** | **3,857** | - | - | - |
| **Measured at fair value through profit or loss** | | | | | | | | | |
| **Argentina** | | | | | | | | | |
| Pampa Holding S.A. | 00457 | | | - | 3,128 | - | - | - | - |
| Edenor S.A. | 00508 | | | - | 201 | - | - | - | - |
| YPF S.A. Series D | 00710 | | | - | 1,189 | - | - | - | - |
| Sociedad Comercial del Plata S.A. | 00251 | | | - | - | 3,857 | - | - | - |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

………………………..(Partner)
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## SCHEDULE B – CLASSIFICATION OF LOANS AND OTHER FINANCING ARRANGEMENTS ACCORDING TO LOANS AND GUARANTEES RECEIVED

For the fiscal year ended 12/31/2018
Comparative as of 12/31/2017 y 01/01/2017
In thousands of Argentine Pesos

| Commercial Portfolio | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| **Normal Situation** | **14,190,463** | **12,996,948** | **10,332,162** |
| With "A" preferred collateral and counterguarantees | 565,375 | 616,354 | 180,885 |
| With "B" preferred collateral and counterguarantees | 1,966,708 | 1,715,092 | 1,109,545 |
| Without preferred collateral and counterguarantees | 11,658,380 | 10,665,502 | 9,041,732 |
| **With Special Follow-up** | **1,088,398** | **36,756** | **386** |
| **Under observation** | **1,082,153** | **36,756** | **386** |
| With "A" preferred collateral and counterguarantees | 23,331 | 291 | - |
| With "B" preferred collateral and counterguarantees | 202,631 | 23,187 | - |
| Without preferred collateral and counterguarantees | 856,191 | 13,278 | 386 |
| **Under negotiation or refinancing agreements** | **6,245** | **-** | **-** |
| Without preferred collateral and counterguarantees | 6,245 | - | - |
| **Troubled** | **88,053** | **556** | **992** |
| With "A" preferred collateral and counterguarantees | 15,259 | - | - |
| With "B" preferred collateral and counterguarantees | 1,646 | - | - |
| Without preferred collateral and counterguarantees | 71,148 | 556 | 992 |
| **With high risk of insolvency** | **54,253** | **6,365** | **5,090** |
| With "A" preferred collateral and counterguarantees | 14,372 | - | - |
| With "B" preferred collateral and counterguarantees | 2,224 | 197 | 1,229 |
| Without preferred collateral and counterguarantees | 37,657 | 6,168 | 3,861 |
| **Uncollectible** | **687** | **3,334** | **16,931** |
| With "B" preferred collateral and counterguarantees | 96 | - | 93 |
| Without preferred collateral and counterguarantees | 591 | 3,334 | 16,838 |
| **Total commercial portfolio** | **15,421,854** | **13,043,959** | **10,355,561** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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For the Supervisory Committee

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# SCHEDULE B – CLASSIFICATION OF LOANS AND OTHER FINANCING ARRANGEMENTS ACCORDING TO LOANS AND GUARANTEES RECEIVED

For the fiscal year ended 12/31/2018
Comparative as of 12/31/2017 y 01/01/2017
In thousands of Argentine Pesos

| Consumer and housing portfolio | 12/31/2018 | 12/31/2017 | 01/01/2017 |
|---|---|---|---|
| **Normal situation** | **23.544.926** | **20.546.043** | **17.077.799** |
| With "A" preferred collateral and counterguarantees | - | 497 | - |
| With "B" preferred collateral and counterguarantees | 4.228.019 | 2.433.363 | 1.704.073 |
| Without preferred collateral and counterguarantees | 19.316.907 | 18.112.183 | 15.373.726 |
| **Low risk** | **1.303.082** | **508.798** | **356.726** |
| With "B" preferred collateral and counterguarantees | 44.607 | 16.635 | 20.696 |
| Without preferred collateral and counterguarantees | 1.258.475 | 492.163 | 336.030 |
| **Mid risk** | **800.636** | **280.365** | **193.379** |
| With "B" collateral and counterguarantees | 11.141 | 4.448 | 3.616 |
| Without preferred collateral and counterguarantees | 789.495 | 275.917 | 189.763 |
| **High risk** | **608.166** | **283.998** | **199.366** |
| With "B" preferred collateral and counterguarantees | 3.190 | 1.923 | 2.662 |
| Without preferred collateral and counterguarantees | 604.976 | 282.075 | 196.704 |
| **Uncollectible** | **17.782** | **22.024** | **8.964** |
| With "B" preferred collateral and counterguarantees | 771 | 873 | 814 |
| Without preferred collateral and counterguarantees | 17.011 | 21.151 | 8.150 |
| **Uncollectible for technical reasons** | **94** | **162** | **259** |
| With "B" preferred collateral and counterguarantees | 24 | 41 | 58 |
| Without preferred collateral and counterguarantees | 70 | 121 | 201 |
| **Total consumer and housing portfolio** | **26.274.686** | **21.641.390** | **17.836.493** |
| | | | |
| **General total** (1) | **41.696.540** | **34.685.349** | **28.192.054** |

(1) Reconciliation between Schedule B and the Balance Sheet:

| | | | |
|---|---|---|---|
| **Loans and other financing arrangements** | **38,223,614** | **32,301,214** | **25,579,241** |
| **Other debt securities** | **3,367,251** | **1,628,027** | **1,950,902** |
| **Off-balance sheet items** | **221,097** | **205,133** | **230,002** |
| plus allowances | 1,175,310 | 638,935 | 499,948 |
| plus IFRS adjustments not computable for the ESD | (22,607) | 119,948 | 120,136 |
| less items not computable for the ESD | (285,220) | (207,908) | (188,175) |
| less government securities at amortized cost | (982,905) | - | - |
| **TOTAL** | **41,696,540** | **34,685,349** | **28,192,054** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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For the Supervisory Committee

…………………………(Partner)
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BANCO Hipotecario

## SCHEDULE C – CONCENTRATION OF LOANS AND OTHER FINANCING ARRANGEMENTS

For the fiscal year ended 12/31/2018, comparative as of 12/31/2017 and 01/01/2017

In thousands of Argentine Pesos

| Number of customers | Financing | | | | | |
|---|---|---|---|---|---|---|
| | 12/31/2018 | | 12/31/2017 | | 01/01/2017 | |
| | Debt balance | % of total portfolio | Debt balance | % of total portfolio | Debt balance | % of total portfolio |
| 10 largest customers | 5,621,385 | 13,48% | 3,511,697 | 10.12% | 3,414,286 | 12.11% |
| 50 following largest customers | 6,004,478 | 14,40% | 5,245,160 | 15.12% | 2,953,544 | 10.48% |
| 100 following largest customers | 914,174 | 2,19% | 1,453,429 | 4.19% | 1,164,411 | 4.13% |
| Rest of customers | 29,156,503 | 69,93% | 24,475,063 | 70.57% | 20,659,813 | 73.28% |
| **TOTAL** (1) | **41,696,540** | **100,00%** | **34,685,349** | **100.00%** | **28,192,054** | **100.00%** |

(1) Reconciliation between Schedule C and the Balance Sheet

| | | | |
|---|---|---|---|
| **Loans and other financing arrangements** | **38,223,614** | **32,301,214** | **25,579,241** |
| **Other debt securities** | **3,367,251** | **1,628,027** | **1,950,902** |
| **Off-balance sheet items** | **221,097** | **205,133** | **230,002** |
| plus allowances | 1,175,310 | 638,935 | 499,948 |
| plus IFRS adjustments not computable for the ESD | (22,607) | 119,948 | 120,136 |
| less items not computable for the ESD | (285,220) | (207,908) | (188,175) |
| less government securities at amortized cost | (982,905) | - | - |
| **TOTAL** | **41,696,540** | **34,685,349** | **28,192,054** |

See our report dated March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

……………………………………..(Partner)
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**SCHEDULE D – BREAKDOWN OF LOANS AND OTHER FINANCING ARRANGEMENTS ACCORDING TO MATURITY DATES**

For the fiscal year ended 12/31/2018

In thousands of Argentine Pesos

| Item | Past due portfolio | Remaining terms to maturity | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | 1 month | 3 months | 6 months | 12 months | 24 months | More than 24 months | |
| Non-financial public sector | - | 3,308 | 7,060 | 12,056 | - | - | - | 22,424 |
| Financial sector | 26,231 | 297,118 | 68,820 | 311 | 645 | 1,391 | 623 | 395,139 |
| Non-financial private sector and foreign residents | 3,389,404 | 11,319,808 | 4,579,618 | 4,041,010 | 4,793,911 | 4,829,805 | 9,137,606 | 42,091,162 |
| **TOTAL** | **3,415,635** | **11,620,234** | **4,655,498** | **4,053,377** | **4,794,556** | **4,831,196** | **9,138,229** | **42,508,725** |

The decrease in future contractual flows is exposed, including interest and accessories to be accrued until maturity of not discounted agreements.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………………..(Partner)
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## SCHEDULE E – BREAKDOWN OF INVESTMENTS IN OTHER COMPANIES

For the fiscal year ended 12/31/2018, comparative as of 12/31/2017 and 01/01/2017

In thousands of Argentine Pesos

| Description | Shares | | | | Amount as of 12/31/2018 | Amount as of 12/31/2017 | Amount as of 01/01/2017 | Information on the issuer | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Class | Face value per unit | Votes per share | Number | | | | Principal line of business | Data of the latest financial statement | | | |
| | | | | | | | | | Fiscal period closing date | Capital stock | Shareholders' equity | Income/(loss) for the year |
| **In financial institutions – Controlled - Argentina** | | | | | | | | | | | | |
| BACS Banco de Crédito y Securitización S.A. | Common | 1 | 1 | 54,687,500 | 327,400 | 263,674 | 299,854 | Banking | 12/31/2018 | 87,813 | 525,691 | 102,318 |
| **In supplementary Service companies - Controlled** | | | | | | | | | | | | |
| Tarshop S.A. | Common | 1 | 1 | 479,037,152 | 848,930 | 508,709 | 486,946 | Insurance and marketing of CC | 12/31/2018 | 598,796 | 927,610 | (174,744) |
| BH Valores S.A. | Common | 1 | 1 | 1,425,000 | 76,033 | 83,519 | 25,926 | Brokerage | 12/31/2018 | 1,500 | 80,035 | (21,762) |
| **In other companies - Controlled** | | | | | | | | | | | | |
| BHN Sociedad de Inversión S.A. | Common | 1 | 1 | 39,131,684 | 1,548,878 | 1,062,772 | 843,224 | Investment | 12/31/2018 | 39,132 | 1,548,881 | 1,286,198 |
| **TOTAL** | | | | | **2,801,241** | **1,918,674** | **1,655,950** | | | | | |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………………..(Partner)
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BANCO Hipotecario

## SCHEDULE F – CHANGES IN BANK PREMISES AND EQUIPMENT

For the fiscal year ended 12/31/2018

In thousands of Argentine Pesos

| Item | Acquisition cost at the beginning of the year | Total useful life in years | Additions | Withdrawals | Impairment | | Depreciation | | | | Residual value as of fiscal year-end |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Losses | Reversals | Accumulated | Withdrawal | For the year | At closing | |
| **Measured at cost** | | | | | | | | | | | |
| - Real estate properties | 1,191,595 | 50 | - | - | - | - | (16,508) | - | (21,502) | (38,010) | 1,153,585 |
| - Furniture and facilities | 98,942 | 10 | 17,836 | (546) | - | - | (41,525) | 427 | (8,524) | (49,622) | 66,610 |
| - Machinery and equipment | 363,559 | 5 | 67,006 | - | - | - | (232,576) | - | (67,720) | (300,296) | 130,269 |
| - Vehicles | 482 | 5 | - | - | - | - | (193) | - | (96) | (289) | 193 |
| - Sundry | 10,443 | 5 | 681 | - | - | - | (6,847) | - | (1,279) | (8,126) | 2,998 |
| - Works in progress | 1,418,308 | - | 1,842,529 | (2,881,092) | (291,029) | - | - | - | - | - | 88,716 |
| **Total bank premises and equipment** | **3,083,329** | | **1,928,052** | **(2,881,638)** | **(291,029)** | **-** | **(297,649)** | **427** | **(99,121)** | **(396,343)** | **1,442,371** |

**Lorena C. Morchón**
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**Manuel J.L. Herrera Grazioli**
General Manager

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March 6, 2019
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**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………………..(Partner)
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## SCHEDULE F – CHANGES IN INVESTMENT PROPERTY

For the fiscal year ended 12/31/2018

In thousands of Argentine Pesos

| Item | Acquisition cost at the beginning of the year | Net income/loss due to measurement at fair value | Additions | Withdrawals | Residual value as of fiscal year-end |
|---|---|---|---|---|---|
| **Measured at Fair Value** | | | | | |
| - Leased property | 174,777 | 188,266 | - | - | 363,043 |
| - Other investment property | - | - | 2,881,092 | - | 2,881,092 |
| **Total investment property** | **174,777** | **188,266** | **2,881,092** | **-** | **3,244,135** |

**Lorena C. Morchón**
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**Manuel J.L. Herrera Grazioli**
General Manager

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Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

……………………………………(Partner)
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## SCHEDULE G – CHANGES IN INTANGIBLE ASSETS

For the fiscal year ended 12/31/2018

In thousands of Argentine Pesos

| Item | Acquisition cost at the beginning of the fiscal year | Total useful life in years | Additions | Withdrawals | Impairment | | Depreciation | | | | Residual value as of fiscal year-end |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Losses | Reversals | Accumulated | Withdrawal | For the fiscal year | At closing | |
| **Measured at cost** | | | | | | | | | | | |
| Development expenses of own systems | - | - | - | - | - | - | - | - | - | - | - |
| Other intangible assets | 296,276 | 5 | 33,462 | - | - | - | (189,645) | - | (17,050) | (206,695) | 123,043 |
| **Total intangible assets** | **296,276** | | **33,462** | **-** | **-** | **-** | **(189,645)** | **-** | **(17,050)** | **(206,695)** | **123,043** |

**Lorena C. Morchón**
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**Manuel J.L. Herrera Grazioli**
General Manager

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as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………………..(Partner)
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## SCHEDULE H – CONCENTRATION OF DEPOSITS

For the fiscal year ended 12/31/2018, comparative as of 12/31/2017 and 01/01/2017

In thousands of Argentine Pesos

| Number of customers | Deposits | | | | | |
|---|---|---|---|---|---|---|
| | 12/31/18 | | 12/31/17 | | 01/01/2017 | |
| | Debt balance | % of total portfolio | Debt balance | % of total portfolio | Debt balance | % of total portfolio |
| 10 largest customers | 5,030,946 | 16.55% | 3,732,532 | 17.76% | 4,376,170 | 24.58% |
| 50 following largest customers | 5,063,553 | 16.66% | 2,244,998 | 10.69% | 2,645,444 | 14.86% |
| 100 following largest customers | 1,545,560 | 5.08% | 877,227 | 4.18% | 1,020,246 | 5.73% |
| Rest of customers | 18,761,911 | 61.71% | 14,151,579 | 67.37% | 9,758,900 | 54.83% |
| **TOTAL** | **30,401,970** | **100.00%** | **21,006,336** | **100.00%** | **17,800,760** | **100.00%** |

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**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

……………………………………..(Partner)
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**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

**SCHEDULE I – BREAKDOWN OF FINANCIAL LIABILITIES ACCORDING TO MATURITY TERMS**
For the fiscal year ended 12/31/2018
In thousands of Argentine Pesos

| Item | Remaining terms to maturity | | | | | | Total |
|---|---|---|---|---|---|---|---|
| | 1 month | 3 months | 6 months | 12 months | 24 months | More than 24 months | |
| **Deposits** | | | | | | | |
| Non-financial public sector | 2,841,396 | 826,887 | 43,616 | - | - | - | 3,711,899 |
| Financial sector | 102,084 | - | - | - | - | - | 102,084 |
| Non-financial sector and foreign residents | 20,425,506 | 5,108,949 | 825,339 | 374,041 | 327,275 | 7,928 | 27,069,038 |
| **Liabilities at fair value through profit or loss** | - | - | 751,511 | - | - | - | 751,511 |
| **Derivative instruments** | 123,108 | - | - | - | - | 1,373,709 | 1,496,817 |
| **Repo transactions** | | | | | | | |
| Other financial institutions | 53,730 | - | - | - | - | - | 53,730 |
| **Other financial liabilities** | 4,173,648 | - | - | - | - | 410,957 | 4,584,605 |
| **Loans from the BCRA and other financial institutions** | 393 | 25,204 | 33,019 | - | - | - | 58,616 |
| **Negotiable obligations issued** | 522,775 | 1,793,340 | 2,045,169 | 6,482,177 | 21,325,383 | 12,444,999 | 44,613,843 |
| **TOTAL** | **28,242,640** | **7,754,380** | **3,698,654** | **6,856,218** | **21,652,658** | **14,237,593** | **82,442,143** |

The decrease in future contractual flows is exposed, including interest and accessories to be accrued until maturity of not discounted agreements.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………………..(Partner)
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**ANEXO J – CHANGES IN ALLOWANCES AND PROVISIONS**
For the fiscal year ended 12/31/2018, comparative as of 12/31/2017 and 01/01/2017
In thousands of Argentine Pesos

| Breakdown | Opening balances | Increases | Decreases | | Balance as of 12/31/2018 | Balance as of 12/31/2017 | Balance as of 01/01/2017 |
|---|---|---|---|---|---|---|---|
| | | | Reversals | Allocations | | | |
| **LIABILITIES** | | | | | | | |
| Administrative, disciplinary and criminal penalties | 600 | 600 | (560) | - | 640 | 600 | 600 |
| Post-retirement benefit plans | 45,029 | 48,502 | (12,000) | (29,479) | 52,052 | 45,029 | 30,782 |
| Other | 307,072 | 295,479 | (282,335) | (110,446) | 209,770 | 307,072 | 210,305 |
| **TOTAL PROVISIONS** | **352,701** | **344,581** | **(294,895)** | **(139,925)** | **262,462** | **352,701** | **241,687** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………………..(Partner)
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**SCHEDULE K – COMPOSITION OF CAPITAL STOCK**
For the fiscal year ended 12/31/2018
In thousands of Argentine Pesos

| Shares | | | | Capital Stock | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Issued | | | | | |
| Class | Number | Face value per share | Votes per share | Outstanding | Treasury stock | Pending issuance or distribution | Allotted | Paid-in | Not yet paid-in |
| Common book-entry | 1,500,000,000 | 1 | (1) | 1,465,661 | 34,339 | - | - | 1,500,000 | - |
| **Total** | | | | **1,465,661** | **34,339** | **-** | **-** | **1,500,000** | **-** |

(1) See Note 1.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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**Ricardo Flammini**
For the Supervisory Committee

……………………………………..(Partner)
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**SCHEDULE L – BALANCES IN FOREIGN CURRENCY**
For the fiscal year ended 12/31/2018
Comparative as of 12/31/2017 and 01/01/2017
In thousands of Argentine Pesos

| Items | Head office and branches in Argentina | Total as of 12/31/2018 | As of 12/31/2018 | | Total as of 12/31/2017 | Total as of 01/01/2017 |
|---|---|---|---|---|---|---|
| | | | Dollar | Euro | | |
| **ASSETS** | | | | | | |
| Cash and bank deposits | 3,971,195 | 3,971,195 | 3,912,883 | 58,312 | 1,371,813 | 4,675,184 |
| Debt securities at fair value through profit or loss | 2,036,483 | 2,036,483 | 2,036,483 | - | 2,442,346 | 684,541 |
| Other financial assets | 356,786 | 356,786 | 356,786 | - | 177,870 | 698,346 |
| Loans and other financing arrangements | | | | | | |
| Non-financial private sector and foreign residents | 7,922,176 | 7,922,176 | 7,922,176 | - | 4,819,088 | 2,849,771 |
| Other debt securities | 1,168 | 1,168 | 1,168 | - | 34,381 | 32,262 |
| Financial assets pledged as collateral | 949,841 | 949,841 | 949,841 | - | 126,800 | 113,603 |
| **TOTAL ASSETS** | **15,237,649** | **15,237,649** | **15,179,337** | **58,312** | **8,972,298** | **9,053,707** |
| **LIABILITIES** | | | | | | |
| Deposits | | | | | | |
| Non-financial public sector | 327,495 | 327,495 | 327,495 | - | 456,422 | 74,006 |
| Financial sector | 85,759 | 85,759 | 85,759 | - | 87,428 | 338 |
| Non-financial private sector and foreign residents | 5,681,369 | 5,681,369 | 5,681,369 | - | 2,856,456 | 2,088,003 |
| Liabilities at fair value through profit or loss | 751,511 | 751,511 | 751,511 | - | - | - |
| Other financial liabilities | 131,847 | 131,847 | 131,742 | 105 | 65,250 | 560,680 |
| Loans from the BCRA and other financing arrangements | 56,712 | 56,712 | 56,712 | - | - | - |
| Negotiable obligations issued | 13,016,652 | 13,016,652 | 13,016,652 | - | 7,094,966 | 6,364,255 |
| Other non-financial liabilities | 4,325 | 4,325 | 4,325 | - | 10,325 | 11,879 |
| **TOTAL LIABILITIES** | **20,055,670** | **20,055,670** | **20,055,565** | **105** | **10,570,847** | **9,099,161** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

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**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………………….(Partner)
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**SCHEDULE N – FINANCIAL ASSISTANCE TO RELATED PARTIES**
For the fiscal year ended 12/31/2018, comparative as of 12/31/2017 and 01/01/2017
In thousands of Argentine Pesos

| Situation – items | Normal | With special follow-up/low risk | Troubled/mid-risk | | High risk of insolvency/high risk | | Uncollectible | Uncollectible for technical reasons | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Not past due | Past due | Not past due | Past due | | | 12/31/2018 | 12/31/2017 | 01/01/2017 |
| **1. Loans and other financing arrangements** | **954,184** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **954,184** | **306,589** | **141,693** |
| -Overdraft facilities | **3,729** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **3,729** | **20,770** | **8,539** |
| With "B" preferred guarantees or counterguarantees | 3,656 | - | - | - | - | - | - | - | 3,656 | 3,018 | 441 |
| Without preferred guarantees or counterguarantees | 73 | - | - | - | - | - | - | - | 73 | 17,752 | 8,098 |
| -Mortgage and pledge loans | **3,730** | - | - | - | - | - | - | - | **3,730** | **3,699** | **1,913** |
| With "B" preferred guarantees or counterguarantees | 3,730 | - | - | - | - | - | - | - | 3,730 | 3,699 | 1,913 |
| -Consumer loans | **54** | - | - | - | - | - | - | - | **54** | **347** | **580** |
| Without preferred guarantees or counterguarantees | 54 | - | - | - | - | - | - | - | 54 | 347 | 580 |
| -Credit cards | **11,197** | - | - | - | - | - | - | - | **11,197** | **11,400** | **8,699** |
| Without preferred guarantees or counterguarantees | 11,197 | - | - | - | - | - | - | - | 11,197 | 11,400 | 8,699 |
| -Other | **935,474** | - | - | - | - | - | - | - | **935,474** | **270,373** | **121,962** |
| With "A" preferred guarantees or counterguarantees | 1,518 | - | - | - | - | - | - | - | 1,518 | 3,547 | - |
| With "B" preferred guarantees or counterguarantees | 288 | - | - | - | - | - | - | - | 288 | 679 | 1,002 |
| Without preferred guarantees or counterguarantees | 933,668 | - | - | - | - | - | - | - | 933,668 | 266,147 | 120,960 |
| **TOTAL** | **954,184** | - | - | - | - | - | - | - | **954,184** | **306,589** | **141,693** |
| **ALLOWANCES** | **9,542** | - | - | - | - | - | - | - | **9,542** | **3,068** | **1,417** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L Herrera Grazioli**
General Manager

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**Ricardo Flammini**
For the Supervisory Committee

…………………………………..(Partner)
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**SCHEDULE O – DERIVATIVE FINANCIAL INSTRUMENTS**
For the fiscal year ended 12/31/2018
In thousands of Argentine Pesos

| Kind of Agreement | Purpose of Transactions | Kind of coverage | Underlying asset | Kind of settlement | Trading environment or counterparty | Average weighted term originally agreed (in months) | Average residual weighted term (in months) | Average weighted term for the settlement of differences (in months) | Amount |
|---|---|---|---|---|---|---|---|---|---|
| Futures | Brokerage - own account | Not applicable | Foreign currency | Daily differences | ROFEX | 1 | 1 | 1 | 4,543,008 |
| Repo transactions | Brokerage - own account | Not applicable | Argentine government securities | With delivery of underlying asset | OTC - Domestic residents - Financial Sector | 1 | 1 | 5 | 59,224 |
| Swaps | Brokerage - own account | Not applicable | Other | Upon maturity of differences | OTC - Domestic residents - Non-financial Sector | 212 | 108 | 30 | 407,604 |
| Swaps | Brokerage - own account | Not applicable | Foreign currency | Upon maturity of differences | OTC - Domestic residents - Non-financial Sector | 211 | 98 | 30 | 150,107 |

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**Manuel J.L Herrera Grazioli**
General Manager

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For the Supervisory Committee

…………………………………..(Partner)
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# SCHEDULE P – CATEGORY OF FINANCIAL ASSETS AND LIABILITIES

For the fiscal year ended 12/31/2018
In thousands of Argentine Pesos

| Description | Amortized Cost | Fair value through OCI | Fair value through profit or loss | | Fair value hierarchy | | |
|---|---|---|---|---|---|---|---|
| | | | Originally designated or under Item 6.7.1. of IFRS 9 | Statutory measurement | Level 1 | Level 2 | Level 3 |
| **FINANCIAL ASSETS** | | | | | | | |
| **Cash and bank Deposits** | **7,952,630** | - | - | - | - | - | - |
| Cash | 1,378,117 | - | - | - | - | - | - |
| Financial institutions and correspondents | 5,706,621 | - | - | - | - | - | - |
| Other | 867,892 | - | - | - | - | - | - |
| **Debt securities at fair value through profit or loss** | - | - | **17,106,724** | - | **16,957,684** | **149,040** | - |
| **Derivative instruments** | - | - | - | **69,478** | - | **69,478** | - |
| **Repo transactions** | **413,127** | - | - | - | - | - | - |
| Argentine Central Bank | 413,127 | - | - | - | - | - | - |
| **Other financial assets** | **1,204,392** | - | **32,908** | - | - | **32,908** | - |
| **Loans and other financing arrangements** | **38,223,614** | - | - | - | - | - | - |
| Non-financial public sector | 22,438 | - | - | - | - | - | - |
| Argentine Central Bank | - | - | - | - | - | - | - |
| Other financial institutions | 379,885 | - | - | - | - | - | - |
| Non-financial private sector and foreign residents | 37,821,291 | - | - | - | - | - | - |
| Overdraft facilities | 595,096 | - | - | - | - | - | - |
| Notes | 150,210 | - | - | - | - | - | - |
| Mortgage loans | 5,017,987 | - | - | - | - | - | - |
| Pledge loans | 1,956 | - | - | - | - | - | - |
| Consumer loans | 7,485,824 | - | - | - | - | - | - |
| Credit cards | 14,017,790 | - | - | - | - | - | - |
| Financial leases | 122,322 | - | - | - | - | - | - |
| Other | 10,430,106 | - | - | - | - | - | - |
| **Other debt securities** | **3,367,251** | - | - | - | - | - | - |
| **Financial assets pledged as collateral** | **960,027** | - | **851,145** | - | **851,145** | - | - |
| **TOTAL FINANCIAL ASSETS** | **52,121,041** | - | **17,990,777** | **69,478** | **17,703,092** | **357,163** | - |

| Description | Amortized | Fair | Fair value through profit or | Fair value hierarchy |
|---|---|---|---|---|

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………………….(Partner)
C.P.C.E.C.A.B.A. Volume 1 - Page 17

## SCHEDULE P – CATEGORY OF FINANCIAL ASSETS AND LIABILITIES

For the fiscal year ended 12/31/2018

In thousands of Argentine Pesos

| | Cost | value through OCI | loss | | | | |
|---|---|---|---|---|---|---|---|
| | | | Originally designated or under Item 6.7.1. of IFRS 9 | Statutory measurement | Level 1 | Level 2 | Level 3 |
| **Deposits** | **30,401,970** | - | - | - | - | - | - |
| Non-financial public sector | 3,625,037 | - | - | - | - | - | - |
| Financial sector | 102,083 | - | - | - | - | - | - |
| Non-financial private sector and foreign residents | 26,674,850 | - | - | - | - | - | - |
| Checking accounts | 3,559,708 | - | - | - | - | - | - |
| Savings accounts | 7,085,303 | - | - | - | - | - | - |
| Time deposits and term investments | 15,154,869 | - | - | - | - | - | - |
| Other | 874,970 | - | - | - | - | - | - |
| **Liabilities at fair value through profit or loss** | - | - | **751,511** | **-** | **751,511** | - | - |
| **Derivative instruments** | - | - | **-** | **1,496,817** | - | **1,496,817** | - |
| **Repo transactions** | **53,662** | - | - | - | - | - | - |
| Other financial institutions | 53,662 | - | - | - | - | - | - |
| **Other financial liabilities** | **4,584,605** | - | - | - | - | - | - |
| **Loans From the BCRA and other financial institutions** | **57,105** | - | - | - | - | - | - |
| **Negotiable obligations issued** | **28,528,629** | - | - | - | - | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **63,625,971** | **-** | **751,511** | **1,496,817** | **751,511** | **1,496,817** | **-** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
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**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………………..(Partner)
C.P.C.E.C.A.B.A. Volume 1 - Page 17

**SCHEDULE Q – BREAKDOWN OF RESULTS**
For the fiscal year ended 12/31/2018
In thousands of Argentine Pesos

| Description | 12/31/2018 Net financial income/(expense) Originally designated or under item 6.7.1. of IFRS 9 | 12/31/2018 Net financial income/(expense) Statutory measurement | 12/31/2018 OCI | 12/31/2017 |
|---|---|---|---|---|
| **Due to measurement of financial assets at fair value through profit or loss** | **4,939,051** | **(93,571)** | **-** | **1,268,295** |
| Government securities income | 4,982,731 | - | - | 1,588,521 |
| Corporate securities loss | (49,513) | - | - | (845) |
| Derivative financial instruments income/(loss) | | | | |
| Forward transactions | - | - | - | (283,933) |
| Interest rate swap | - | (93,571) | - | (43,017) |
| Due to investments in equity instruments | 5,833 | - | - | 7,569 |
| **TOTAL** | **4,939,051** | **(93,571)** | **-** | **1,268,295** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
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**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………………..(Partner)
C.P.C.E.C.A.B.A. Volume 1 - Page 17

**SCHEDULE Q – BREAKDOWN OF RESULTS**
For the fiscal year ended 12/31/2018
In thousands of Argentine Pesos

| Interest and adjustments due to application of effective interest rate of financial assets measured at amortized cost | 12/31/2018 | 12/31/2017 |
|---|---|---|
| | **Financial income/(expense)** | |
| **Interest income** | | |
| Cash and band deposits | 163 | 160 |
| Corporate securities | 766,175 | 443,527 |
| Government securities | 145,367 | - |
| Loans and other financing arrangements | | |
| To the Financial Sector | 140,646 | 106,804 |
| Overdraft facilities | 394,314 | 155,007 |
| Notes | 106,306 | 124,040 |
| Mortgage loans | 1,341,672 | 635,508 |
| Pledge loans | 400 | 14,535 |
| Consumer loans | 3,274,152 | 2,296,440 |
| Credit cards | 4,460,725 | 3,074,532 |
| Financial leases | 38,555 | 38,336 |
| Other | 1,582,867 | 922,429 |
| Repo transactions | | |
| Argentine Central Bank | 18,438 | - |
| Other financial institutions | 31,205 | 337,479 |
| **TOTAL** | **12,300,985** | **8,148,797** |
| **Interest expense** | | |
| Deposits | | |
| Checking accounts | (1,015,635) | (122,156) |
| Savings accounts | (9,050) | (4,953) |
| Time deposits and term Investments | (3,762,763) | (2,223,681) |
| Loans from the BCRA and other financial institutions | (43,523) | (21,891) |
| Repo transactions | | |
| Argentine Central Bank | (3,867) | (74,127) |
| Other financial institutions | (112,628) | - |
| Other financial liabilities | (38,358) | (16,288) |
| Negotiable Obligations issued | (6,104,301) | (2,779,434) |
| **TOTAL** | **(11,090,125)** | **(5,242,530)** |
| **Commission income** | | |
| Linked to liabilities | 343,890 | 251,760 |
| Linked to loans | 2,723,944 | 2,265,980 |
| Linked to securities | 28,934 | 30,594 |
| Other | 598 | 1,621 |
| **TOTAL** | **3,097,366** | **2,549,955** |
| **Commission expense** | | |
| Other | (90,578) | (129,410) |
| **TOTAL** | **(90,578)** | **(129,410)** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L. Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………………….(Partner)
C.P.C.E.C.A.B.A. Volume 1 - Page 17

BANCO Hipotecario

## SCHEDULE R – CORRECTION OF VALUE FOR LOSSES – PROVISION FOR LOAN LOSSES

For the fiscal year ended 12/31/2018, comparative as of 12/31/2017 and 01/01/2017

In thousands of Argentine Pesos

| Description | Opening balances | Increases | Decreases | | Balance as of 12/31/2018 | Balance as of 12/31/2017 | Balance as of 01/01/2017 |
|---|---|---|---|---|---|---|---|
| | | | Reversals | Allocations | | | |
| **Other financial assets** | **-** | **8,472** | **-** | **-** | **8,472** | **-** | **-** |
| **Loans and other financing arrangements** | | | | | | | |
| Non-financial private sector and foreign residents | **622,794** | **990,779** | **33,584** | **426,264** | **1,151,225** | **622,794** | **480,243** |
| Overdraft facilities | 95,496 | 190,724 | 15,952 | 1,356 | 268,912 | 95,496 | 62,938 |
| Notes | 6,447 | - | - | 4,531 | 1,916 | 6,447 | 5,426 |
| Mortgage loans | 33,105 | 26,631 | 2,622 | 1,510 | 55,604 | 33,105 | 27,674 |
| Consumer loans | 194,404 | 417,824 | 11,992 | 225,379 | 374,857 | 194,404 | 118,363 |
| Credit cards | 220,103 | 351,668 | 3,018 | 195,804 | 372,949 | 220,103 | 195,796 |
| Financial leases | 1,559 | - | - | 184 | 1,375 | 1,559 | 1,453 |
| Other | 71,680 | 3,932 | - | - | 75,612 | 71,680 | 68,593 |
| **Corporate securities** | **16,141** | **7,943** | **-** | **-** | **24,084** | **16,141** | **19,706** |
| **TOTAL PROVISIONS** | **638,935** | **1,007,194** | **33,584** | **428,764** | **1,183,781** | **638,935** | **499,949** |

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………………..(Partner)
C.P.C.E.C.A.B.A. Volume 1 - Page 17

**PROJECT FOR THE DISTRIBUTION OF PROFITS**
For the fiscal year ended 12/312018
In thousands of Argentine Pesos

| ITEM | 12/31/2018 |
|---|---|
| Retained earnings | 1,909,292 |
| To legal reserve (20% over 1,909,292) | 381,858 |
| Less off-balance sheet adjustment item 2.3. – Revised text “Distribution of profits” (a) | 13,488 |
| **Subtotal 1** | **1,513,946** |
| Less off-balance sheet adjustment item 2.2. – Revised text “Distribution of profits” (b) | 785,620 |
| **Subtotal 2** | **728,326** |
| **Distributable balance for the year** | **1,527,434** |
| To optional reserves | 1,527,434 |

(a) Item 2.3 indicates as deductible “the positive net difference arising from the measurement at amortized cost and the fair value that the financial institution accounts for with respect to government securities and/or Argentine Central Bank monetary policy instruments for those instruments valued at amortized cost”. The Bank has determined these adjustments considering the valuation of species accounted for under “Other debt securities”.

(b) Item 2.2 indicates as deductible “the result arising from the revaluation of bank premises and equipment and intangible assets and investment property”. The Bank has considered in this item the adjustment of cost pursuant to IFRS 1 made in the real properties of Bank premises and equipment and the revaluations of real properties of Investment Property.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………………..(Partner)
C.P.C.E.C.A.B.A. Volume 1 - Page 17

# Report of the Supervisory Committee

To the Directors and Shareholders of
**Banco Hipotecario S.A.**
Head Office: Reconquista 151
Autonomous City of Buenos Aires
Tax Payer's Code (CUIT): 30-500001107-2

## 1-INTRODUCTION

We have made a review of the attached separate financial statements of **Banco Hipotecario S.A.** (hereinafter, the "Bank"), which includes the separate balance sheet as of December 31, 2018, the respective separate statements of income and other comprehensive income, the separate statement of changes in shareholders' equity, and the separate statement of cash flows for the fiscal year then ended, as well as a summary of the significant accounting policies and other explanatory information included in supplementary notes and schedules.

The balances and other information for fiscal year 2017 are an integral part of the above-mentioned audited financial statements, and, therefore, shall be considered in relation to those financial statements.

## 2-BOARD OF DIRECTORS' RESPONSIBILITY

The Bank's Board of Directors is responsible for the preparation and issuance of the financial statements in accordance with the accounting framework set forth by the Argentine Central Bank. The Board of Directors is also responsible for the existence of such internal controls as it deems necessary to allow the preparation of financial statements free from significant misstatements arising from mistakes or irregularities.

## 3-SCOPE OF THE WORK

Our work was performed in accordance with supervisory committee standards currently in force. These standards require supervisory committees to examine the accounting documents detailed in section 1. in accordance with the auditing standards in force and to include a verification of the reasonableness of the significant information contained in the examined documents and whether they are consistent with the other information on the corporate decisions known to us and transcribed unto Board and Shareholders' meetings minutes and evaluating whether those decisions conform to the law and the by-laws insofar as concerns formal and documentary aspects.

In conducting our professional work, we have made a review of the work performed by the Company's independent auditors, Price Waterhouse & Co. S.R.L., who issued a report dated March 6, 2019, with which we concur. Said audit was performed in accordance with the auditing standards currently applicable to the examination of annual financial statements, in conformity with professional accounting standards and the auditing standards issued by the Argentine Central Bank.

An audit comprises the use of procedures to obtain judgment elements concerning the figures and other information contained in the financial statements. The selected procedures depend on the auditor's judgment, which includes a risk assessment of significant misstatements in the financial statements.

In making such risk assessment, the auditor must consider the relevant internal controls relevant to the preparation and issuance of the financial statements by the Bank, with the aim of designing appropriate auditing procedures, according to the circumstances, and not with the aim of rendering an opinion on the efficiency of the Bank's internal controls. An audit also comprises an evaluation of the adequacy of the accounting policies applied, the reasonableness of the management's accounting estimates, and the overall presentation of the financial statements.

We consider that the judgment elements obtained provide a sufficient and appropriate basis for our opinion.

As concerns the Annual Report prepared by the Board for the fiscal year ended on December 31, 2018, we have verified that it contains the information prescribed by Section 66 of the Argentine Companies Act to the extent of the matters within our purview and that the figures therein contained match the Bank's accounting records.

**4-OPINION**

In our opinion the attached separate financial statements present fairly, in all their relevant aspects, Banco Hipotecario SA's financial condition as of December 31, 2018, as well as its separate comprehensive income and separate cash flows for the fiscal year then ended, in accordance with the accounting standards set forth by the Argentine Central Bank.

**5-EMPHASIS PARAGRAPH**

Without changing our opinion, as stated in Note No. 2, the attached financial statements have been prepared in accordance with the accounting framework set forth by the Argentine Central Bank. Said regulations differ from the professional accounting standards in force. The impact on said financial statements as a result of the different valuation and presentation criteria has been identified by the Bank in said note.

## 6. PARAGRAPH ON OTHER MATTERS

Without changing our opinion, we draw attention to the fact that these financial statements were prepared in accordance with the accounting framework set forth by the BCRA, and that said framework significantly and generally differs from the professional accounting standards in force (International Financial Reporting Standards (IFRS) adopted by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE)). These differences lie in that the accounting framework set forth by the BCRA does not provide for the application of item 5.5 "Impairment" of IFRS 9 "Financial Instruments", nor of International Accounting Standard No. 29 "Financial reporting in hyperinflationary economies". The Bank has not quantified these differences in a note to these financial statements. The financial statements should be read, for their correct interpretation, in the light of these circumstances.

## 7-REPORT ON COMPLIANCE WITH REGULATIONS IN FORCE

In compliance with regulations in force, we report that:

a) Banco Hipotecario S.A.'s separate financial statements as of December 31, 2018, appear on the "Inventory and Balance Sheet" book and comply, insofar as concerns our field of competence, with the provisions of the Argentine Business Companies Act and the pertinent resolutions of the BCRA and the Argentine Securities Commission.

b) The separate financial statements of Banco Hipotecario S.A. arise from accounting records kept in all formal respects in compliance with the laws, which meet the security and integrity requirements that were considered by the Argentine Securities Commission upon authorizing them.

c) We have read the information summary and the information additional to the notes to the financial statements required by Section 12, Chapter III, Title IV, of the Argentine Securities Commission, upon which, insofar as concerns our field of competence, there are no observations to make.

d) We have read the information included in note 30 to the separate financial statements as of December 31, 2018 as regards the requirements set forth by the Argentine Securities Commission concerning Minimum Shareholders' Equity and its Balancing Account, upon which, insofar as concerns our field of competence, there are no observations to make.

e) We have reviewed the Annual Report, on which we have no comments to make as concerns our field of competence, the forward looking statements being the sole responsibility of the Board of Directors.

f) We have applied the procedures for the prevention of asset laundering and terrorism financing for the Bank mandated by the relevant professional accounting standards issued by the Professional Council in Economic Sciences of the Autonomous City of Buenos Aires.

g) We have verified that the Directors serving on the Board as of the date of submission of these Financial Statements have complied with their duty to post a guarantee in conformity with the provisions under Paragraph 1.4 of Exhibit I to Technical Resolution No. 15 of the Argentine Federation of Professional Councils in Economic Sciences.

h) As concerns the Exhibit to the Annual Report of the Report on compliance with the Corporate Governance Code, no relevant aspect have been noticed that would make us believe that it should be amended to comply with the provisions of Resolution No. 606 of the CNV;

i) As concerns the rules of the CNV, we have read the independent auditors' report, from which it arises the following:

i. the audit standards applied are those approved by the FACPCE and those of the Argentine Central bank, which provide for the independence requirements; and

ii. the financial statements have been prepared in accordance with the IFRS, considering what was mentioned in item 6 above and the rules of the CNV.

j) The provisions under Section 294 of the Argentine Companies Act have been complied with.

In addition, any member of the Supervisory Committee is authorized to sign this report on behalf of the entire body.

**Autonomous City of Buenos Aires, March 6, 2019.**

By the Supervisory Committee

Ricardo Flammini
Statutory Auditor

# Report of the Supervisory Committee

To the Directors and Shareholders of
**Banco Hipotecario S.A.**
Head Office: Reconquista 151
Autonomous City of Buenos Aires
Tax Payer's Code (CUIT): 30-500001107-2

## 1-INTRODUCTION

We have made a review of the attached consolidated financial statements of **Banco Hipotecario S.A.** (hereinafter, the "Bank"), which includes the consolidated balance sheet as of December 31, 2018, the respective consolidated statements of income and other comprehensive income, the consolidated statement of changes in shareholders' equity, and the consolidated statement of cash flows for the fiscal year then ended, as well as a summary of the significant accounting policies and other explanatory information included in supplementary notes and schedules.

The balances and other information for fiscal year 2017 are an integral part of the above-mentioned audited financial statements, and, therefore, shall be considered in relation to those financial statements.

## 2-BOARD OF DIRECTORS' RESPONSIBILITY

The Bank's Board of Directors is responsible for the preparation and issuance of the financial statements in accordance with the accounting framework set forth by the Argentine Central Bank. The Board of Directors is also responsible for the existence of such internal controls as it deems necessary to allow the preparation of financial statements free from significant misstatements arising from mistakes or irregularities.

## 3-SCOPE OF THE WORK

Our work was performed in accordance with supervisory committee standards currently in force. These standards require supervisory committees to examine the accounting documents detailed in section 1. in accordance with the auditing standards in force and to include a verification of the reasonableness of the significant information contained in the examined documents and whether they are consistent with the other information on the corporate decisions known to us and transcribed unto Board and Shareholders' meetings minutes and evaluating whether those decisions conform to the law and the by-laws insofar as concerns formal and documentary aspects.

In conducting our professional work, we have made a review of the work performed by the Company's independent auditors, Price Waterhouse & Co. S.R.L., who issued a report dated March 6, 2019, with which we concur. Said audit was performed in accordance with the auditing standards currently applicable to the examination of annual financial statements, in conformity with professional accounting standards and the auditing standards issued by the Argentine Central Bank.

An audit comprises the use of procedures to obtain judgment elements concerning the figures and other information contained in the financial statements. The selected procedures depend on the auditor's judgment, which includes a risk assessment of significant misstatements in the financial statements.

In making such risk assessment, the auditor must consider the relevant internal controls relevant to the preparation and issuance of the financial statements by the Bank, with the aim of designing appropriate auditing procedures, according to the circumstances, and not with the aim of rendering an opinion on the efficiency of the Bank's internal controls. An audit also comprises an evaluation of the adequacy of the accounting policies applied, the reasonableness of the management's accounting estimates, and the overall presentation of the financial statements.

We consider that the judgment elements obtained provide a sufficient and appropriate basis for our opinion.

As concerns the Annual Report prepared by the Board for the fiscal year ended on December 31, 2018, we have verified that it contains the information prescribed by Section 66 of the Argentine Companies Act to the extent of the matters within our purview and that the figures therein contained match the Bank's accounting records.

**4-OPINION**

In our opinion the attached consolidated financial statements present fairly, in all their relevant aspects, Banco Hipotecario SA's financial condition consolidated with its controlled companies as of December 31, 2018, as well as its consolidated comprehensive income and consolidated cash flows for the fiscal year then ended, in accordance with the accounting standards set forth by the Argentine Central Bank.

**5-EMPHASIS PARAGRAPH**

Without changing our opinion, as stated in Note No. 2, the attached financial statements have been prepared in accordance with the accounting framework set forth by the Argentine Central Bank. Said regulations differ from the professional accounting standards in force. The impact on said financial statements as a result of the different valuation and presentation criteria has been identified by the Bank in said note.

**6. PARAGRAPH ON OTHER MATTERS**

Without changing our opinion, we draw attention to the fact that these financial statements were prepared in accordance with the accounting framework set forth by the BCRA, and that said framework significantly and generally differs from the professional accounting standards in force (International Financial Reporting Standards (IFRS) adopted by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE)). These differences lie in that the accounting framework set forth by the BCRA does not provide for the application of item 5.5 “Impairment” of IFRS 9 “Financial Instruments”, nor of International Accounting Standard No. 29 “Financial reporting in hyperinflationary economies”. The Bank has not quantified these differences in a note to these financial statements. The financial statements should be read, for their correct interpretation, in the light of these circumstances.

**7-REPORT ON COMPLIANCE WITH REGULATIONS IN FORCE**

In compliance with regulations in force, we report that:

a) Banco Hipotecario S.A.'s consolidated financial statements as of December 31, 2018, appear on the "Inventory and Balance Sheet" book and comply, insofar as concerns our field of competence, with the provisions of the Argentine Business Companies Act and the pertinent resolutions of the BCRA and the Argentine Securities Commission.

b) The consolidated financial statements of Banco Hipotecario S.A. arise from accounting records kept in all formal respects in compliance with the laws, which meet the security and integrity requirements that were considered by the Argentine Securities Commission upon authorizing them.

c) We have read the information summary and the information additional to the notes to the financial statements required by Section 12, Chapter III, Title IV, of the Argentine Securities Commission, upon which, insofar as concerns our field of competence, there are no observations to make.

d) We have read the information included in note 31 to the consolidated financial statements as of December 31, 2018 as regards the requirements set forth by the Argentine Securities Commission concerning Minimum Shareholders' Equity and its Balancing Account, upon which, insofar as concerns our field of competence, there are no observations to make.

e) We have reviewed the Annual Report, on which we have no comments to make as concerns our field of competence, the forward looking statements being the sole responsibility of the Board of Directors.

f) We have applied the procedures for the prevention of asset laundering and terrorism financing for the Bank mandated by the relevant professional accounting standards issued by the Professional Council in Economic Sciences of the Autonomous City of Buenos Aires.

g) We have verified that the Directors serving on the Board as of the date of submission of these Financial Statements have complied with their duty to post a guarantee in conformity with the provisions under Paragraph 1.4 of Exhibit I to Technical Resolution No. 15 of the Argentine Federation of Professional Councils in Economic Sciences.

h) As concerns the Exhibit to the Annual Report of the Report on compliance with the Corporate Governance Code, no relevant aspect have been noticed that would make us believe that it should be amended to comply with the provisions of Resolution No. 606 of the CNV;

i) As concerns the rules of the CNV, we have read the independent auditors' report, from which it arises the following:

i. the audit standard applied are those approved by the FACPCE and those of the Argentine Central bank, which provide for the independence requirements; and

ii. the financial statements have been prepared in accordance with the IFRS, considering what was mentioned in item 6 above and the rules of the CNV.

j) The provisions under Section 294 of the Argentine Companies Act have been complied with.

In addition, any member of the Supervisory Committee is authorized to sign this report on behalf of the entire body.

**Autonomous City of Buenos Aires, March 6, 2019.**

By the Supervisory Committee

Ricardo Flammini
Statutory Auditor

ADDITIONAL INFORMATION REQUIRED BY CHAPTER III, TITLE IV, SECTION 12 OF CNV RULES (GENERAL RESOLUTION No. 622/13)

I. BHSA's business: General Aspects

1. Significant specific legal regimes that confer benefits which are contingently forfeited and/or granted.

There are none.

2. Significant changes in the Company's businesses or in other similar circumstances occurred in the periods covered by the financial statements and apt to affect their comparability with those presented in previous fiscal years or comparability with financial statements to be presented in the future.

There are none.

3. Classification of receivables (extensions of credit) and payables (deposits and obligations) according to their maturity dates.

See Schedule "D" – Breakdown of loans and other financing arrangements by maturity dates and Schedule "I" – Breakdown of financial liabilities by maturity dates in Banco Hipotecario S.A.'s Separate Financial Statements.

4. Classification of receivables (lending) and payables (deposits and obligations) so as to disclose the financial effects stemming from their maintenance.

See Note 2.1, Schedule "D" – Breakdown of loans and other financing arrangements by maturity dates and Schedule "I" – Breakdown of financial liabilities by maturity dates and Schedule "L" – Foreign Currency Balances in Banco Hipotecario S.A.'s Separate Financial Statements.

5. Detail of the ownership interest percentages in the companies governed by Law No. 19,550, Section 33 in the capital stock and in total votes and debit and/or credit balances by company.

See Schedule "E" – Breakdown of Investments in Other Companies and Note 28 Related party transactions and balances in Banco Hipotecario S.A.'s separate interim condensed financial statements.

6. Trade receivables or loans held against directors, supervisory committee members, surveillance committee members and their relatives up to, and including, the second degree.

As of December 31, 2018, loans to directors, supervisory committee members, surveillance committee members and their relatives up to, and including, the second degree, amount to Pesos 47,639 thousand with the highest amount lent as of that date being Pesos 47,639 thousand. Credit extended to directors, supervisory committee members and their related parties complies with the limits and conditions established in this respect by Section 28, Sub-section d) of the Financial Institutions Law and BCRA's rules (Communications "A" 2140 and supplementary).

| | | |
|---|---|---|
| **Lorena C. Morchón**<br>General Accounting Manager | **Manuel J.L Herrera Grazioli**<br>General Manager | See our report dated<br>March 6, 2019<br>PRICE WATERHOUSE & Co. S.R.L. |
| **Saúl Zang**<br>Second Vice-Chairman acting as Chairman | **Ricardo Flammini**<br>For the Supervisory Committee | …………………………………..(Partner)<br>C.P.C.E.C.A.B.A. Volume 1 - Page 17 |

ADDITIONAL INFORMATION REQUIRED BY CHAPTER III, TITLE IV, SECTION 12 OF CNV RULES
(GENERAL RESOLUTION No. 622/13)

II. Physical count of inventories

7. Periodicity and scope of physical counts on inventories.

Given the Company's corporate purpose, this does not apply.

III. Current values

8. Current values used to measure inventories, bank premises and equipment and other significant assets.

The Bank abides by BCRA's rules in force for the valuation of bank premises and equipment and miscellaneous assets. See Note 2 and Schedule "F" – Banks premises and equipment in Banco Hipotecario S.A.'s Separate Financial Statements.

9. Bank premises and equipment that have been technically re-measured

The Bank abides by BCRA's rules in force for the valuation of bank premises and equipment and miscellaneous assets. See Note 2 and Schedule "F" - Bank premises and equipment in Banco Hipotecario S.A.'s Separate Financial Statements.

10. Bank premises and equipment –unused on grounds of obsolescence

The Bank abides by BCRA's rules in force for the valuation of bank premises and equipment and miscellaneous assets. See Note 2 and Schedule "F" - Bank premises and equipment in Banco Hipotecario S.A.'s Separate Financial Statements.

IV. Ownership interests in other companies

11. Ownership interests in other companies in excess of what has been admitted by Section 31 of Law No. 19,550 and plans to regularize the situation.

There are none.

V. Recoverable values

12. Criteria applied to determine all significant "recoverable values" for inventories, bank premises and equipment and other assets, used as limits on their respective book values.

The Bank abides by BCRA's rules in force for the valuation of bank premises and equipment and miscellaneous assets. See Note 2 and Schedule "F" - Bank premises and equipment in Banco Hipotecario S.A.'s Separate Financial Statements.

ADDITIONAL INFORMATION REQUIRED BY CHAPTER III, TITLE IV, SECTION 12 OF CNV RULES (GENERAL RESOLUTION No. 622/13)

VI. Insurance

13. Insurance that covers tangible assets.

| Insured Property | | | | |
|---|---|---|---|---|
| Type of Insurance | Coverage | Risk | Policy No. | Insurance Company |
| Banking Comprehensive | Cash, checks and valuables | Fraud, theft, safety box and valuables in transit | COVERAGE CERTIFICATE POLICY PENDING ISSUANCE (Effective term 10/31/18 to 10/31/19) | Hipotecario Seguros |
| All Operating Risk | Building, machinery, equipment, furniture, fixtures and works of art | Fire, looting and earthquake | 2800-0010106-01 (Effective term 10/31/18 to 10/31/19) | La Caja |
| Motor Vehicles | Vehicles | Comprehensive risk and third parties with deductibles | Policy No. 1097809 (Effective term 06/08/18 to 06/08/19) | QBE |

VII. Positive and negative contingencies

14. Elements considered to calculate the loan losses whose balances, considered individually or in the aggregate, are in excess of two per cent (2%) of equity.

15. The Bank abides by BCRA's rules for loan loss provisions. See Schedule “J” and Note 7 – Loans and other financing arrangements in Banco Hipotecario S.A.'s Separate Interim Condensed Financial Statements.

16. Situations that are contingent as of the date of the financial statements, whose likelihood of occurrence is not remote and whose financial effects have not been accounted for, with an indication as to whether they have not been accounted for based on their probability of occurrence or on difficulties in quantifying their effects.

There are none.

**Lorena C. Morchón**
General Accounting Manager

**Manuel J.L Herrera Grazioli**
General Manager

See our report dated
March 6, 2019
PRICE WATERHOUSE & Co. S.R.L.

**Saúl Zang**
Second Vice-Chairman acting as Chairman

**Ricardo Flammini**
For the Supervisory Committee

…………………………………..(Partner)
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ADDITIONAL INFORMATION REQUIRED BY CHAPTER III, TITLE IV, SECTION 12 OF CNV RULES
(GENERAL RESOLUTION No. 622/13)

VIII. Irrevocable advances on account of future subscriptions

17. Status of procedures aimed at capitalization.

There are none.

18. Unpaid cumulative dividends on preferred shares.

There are none.

19. Conditions, circumstances or terms for restrictions on the distribution of unappropriated retained earnings to be lifted.

See Note 31.7– Distribution of profits to the Separate Interim Condensed Financial Statements.