



Ps.6,300,000,000
Banco Hipotecario S.A.
Floating Rate Notes Due 2022, Series No. 48

This Pricing Supplement relates to a series of notes to be issued under our Global Note Program for the issuance of notes in one or more series up to an aggregate principal amount at any time outstanding of US\$1,500,000,000, which we refer to as our “Global Note Program”. This Pricing Supplement is supplementary to, and should be read in conjunction with, the Offering Memorandum dated November 1, 2017 relating to the Global Note Program, which we refer to as the “Offering Memorandum”. To the extent that information contained in this Pricing Supplement is not consistent with the Offering Memorandum, this Pricing Supplement will be deemed to supersede the Offering Memorandum with respect to the Notes offered hereby.

We are offering Ps.6,300,000,000 aggregate principal amount of our Floating Rate Notes Due 2022, Series No. 48, which we refer to as the “notes”. Payment of principal of the Notes will be made in three installments as follows: Ps.2,097,900,000 on May 7, 2022, Ps.2,097,900,000 on August 7, 2022 and Ps.2,104,200,000 on November 7, 2022. The final maturity of the Notes will be November 7, 2022. We will pay interest on the Notes quarterly in arrears on February 7, May 7, August 7 and November 7 of each year, commencing on February 7, 2018. Payment of principal, interest, additional amounts and any other amounts in respect of the Notes will be made in U.S. dollars, as calculated by the Calculation Agent (as defined below) by converting the Argentine pesos amounts due into U.S. dollars at the Applicable Exchange Rate (as defined below) on the applicable Calculation Date (as defined below). Investors will pay the subscription price of the Notes in U.S. dollars based on the Initial Exchange Rate (as defined below) of Ps.17.6689 per US\$1.00.

We may redeem the Notes, in whole or in part, at any time by paying the greater of 100% of the outstanding principal amount of the Notes and the applicable “make whole” premium amount plus any accrued and unpaid interest and any additional amounts. In the event of certain changes in Argentine withholding taxes, we may redeem the Notes, in whole but not in part, at any time at a price equal to 100% of the outstanding principal amount plus accrued and unpaid interest and any additional amounts.

The Notes will constitute our unsecured and unsubordinated obligations and will rank at all times *pari passu* in right of payment with our other unsecured and unsubordinated indebtedness (other than obligations preferred by statute or by operation of law), including deposits.

An investment in the Notes involves significant risks. See “Risk Factors” herein and commencing on page 11 of the Offering Memorandum for a description of certain material risks related to an investment in the Notes.

We will apply to have the Notes listed on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. We will also apply to have the Notes listed and admitted for trading on the Bolsas y Mercados Argentinos S.A. (“BYMA”) and on the Mercado Abierto Electrónico S.A. (“MAE”). There can be no assurance that these applications will be accepted.

The Notes will constitute non-convertible notes, or obligaciones negociables simples no convertibles en acciones, under the Argentine Negotiable Obligations Law No. 23,576, as amended (the “Negotiable Obligations Law”), will be issued and placed in accordance with such law, Law No. 26,831 on Capital Markets (the “Capital Markets Law”), Decree No. 1023/2013 implementing the Capital Markets Law and the rules of the Comisión Nacional de Valores (the “CNV”) (as approved by General Resolution No. 622/13, as amended and supplemented (collectively, the “CNV Rules”)), and will have the benefits provided thereby and will be subject to the procedural requirements therein set forth.

The Notes will not benefit from the Argentine deposit insurance system established pursuant to Argentine Law No. 24,485, as amended, or the exclusive priority right granted to depositors pursuant to Article 49(d) and (e) of Argentine Law No. 21,526, as amended (the “Financial Institutions Law”). The Notes will not be secured by any security interest or guarantee and will not be guaranteed by any other means or by any other entity or person.

The public offering of Notes under the Global Note Program has been authorized by the CNV pursuant to Resolution No. 16,573 dated May 24, 2011, Resolution No. 17,805 dated September 9, 2015, Resolution No. 18,145 dated July 28, 2016, and Resolution No. 18,493 dated February 2, 2017. This authorization means only that the information requirements of the CNV have been satisfied. The CNV has not rendered any opinion in respect of the accuracy of the information contained in this Pricing Supplement or in the Offering Memorandum.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws or the securities laws of any other jurisdiction (other than Argentina). The Notes may not be offered or sold within the U.S. or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. For a description of certain restrictions on resales and transfers see “Subscription and Sale” and “Transfer Restrictions” in the Offering Memorandum.

This Pricing Supplement and the Offering Memorandum dated November 1, 2017 shall constitute a prospectus for purposes of part IV of the Luxembourg law on prospectuses for securities dated July 10, 2015, as amended.

Price: 100.000%, plus accrued interest, if any, from November 7, 2017.

We expect that delivery of the Notes will be made to investors in book-entry form through the facilities of The Depository Trust Company and its direct and indirect participants, including Clearstream Banking, *société anonyme* and Euroclear Bank S.A./N.V., on or about November 7, 2017.

Joint Book-Running Managers

Credit Suisse

J.P. Morgan

BCP Securities, LLC

Banco Hipotecario S.A.

Argentine Placement Agents

BACS Banco de Crédito y Securitización S.A.

November 10, 2017

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Unless otherwise defined herein, capitalized terms used in this Pricing Supplement shall have the meanings given to them in the Offering Memorandum. In this Pricing Supplement, unless the context requires otherwise, references to the “Bank”, “we”, “our”, or “us” mean Banco Hipotecario S.A. and its consolidated subsidiaries. A copy of our bylaws is available for review on the website of the CNV at <http://www.cnv.gov.ar>.

We have translated some of the Argentine peso amounts contained in this Pricing Supplement into U.S. dollars for convenience purposes only. Unless otherwise specified, our assets and liabilities in foreign currency are valued at the exchange rate as of each relevant date on period-end according to the Central Bank Reference Exchange Rate for U.S. dollar. The exchange rate used for purposes of translation of balances as of June 30, 2017 was Ps.16.5985 = US\$1.00, in accordance with the Reference Exchange Rate (*Tipo de Cambio Referencia*) (the “Reference Exchange Rate”) published by the Central Bank (*Banco Central de la República Argentina*) (the “Central Bank”) as of such date. The Federal Reserve Bank of New York does not report a noon buying rate for Argentine pesos. The U.S. dollar equivalent information presented in this Pricing Supplement is provided solely for the convenience of investors and should not be construed as implying that the Argentine peso amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate. See “Exchange Rates and Exchange Controls” in the Offering Memorandum.

The information provided in this Pricing Supplement or in the Offering Memorandum that relates to Argentina and its economy is based upon publicly available information, and neither we nor the Initial Purchasers and the Argentine Placement Agents appointed in connection with the issuance of the Notes make any representation or warranty with respect thereto. Argentina, and any governmental agency or political subdivision thereof, does not in any way guarantee, and their credit does not otherwise back, our obligations in respect of the Notes.

You should rely only on the information contained in this Pricing Supplement and the Offering Memorandum. Neither we, nor the Initial Purchasers or the Argentine Placement Agents, have authorized anyone to provide you with information that is different from the information contained in this Pricing Supplement and the Offering Memorandum. The information in this Pricing Supplement and the Offering Memorandum is accurate only as of the date of this Pricing Supplement. We accept responsibility for the information contained in this Pricing Supplement and the Offering Memorandum. To the best of our knowledge and belief, having taken all reasonable care to ensure such is the case, the information contained in this Pricing Supplement and the Offering Memorandum is in accordance with the facts and contains no omission likely to affect their import.

The offer of the Notes in Argentina shall be conducted by means of an offering that qualifies as a public offering under Argentine law and the CNV Rules. In order to comply with those regulations, the placement of the Notes in the Republic of Argentina will be conducted by means of a book-building process. See “Placement Efforts and Allocation Process”.

In making your decision whether to invest in the Notes, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. You should not construe the contents of this Pricing Supplement or the Offering Memorandum as legal, business or tax advice. You should consult your own attorney, business advisor or tax advisor.

The accuracy of any accounting, financial and economic information as well as any other information provided in this Pricing Supplement and in the Offering Memorandum is the sole responsibility of our board of directors, and our Supervisory Committee and our external auditors as to any aspect within their competence and to the extent of their respective reports on the accompanying financial statements, and other responsible persons referred to in Sections 119 and 120 of the Capital Markets Law. Our board of directors hereby expresses as a sworn statement that this Pricing Supplement and the Offering Memorandum contains, as of the date of publication hereof, accurate and sufficient information concerning any significant events that may affect our financial and economic condition and any other information that must be made known to investors under applicable law. To the best of our knowledge and belief, having taken all reasonable care to ensure such is the case, there has been no material adverse change in our financial and economic condition since the date of our last audited financial statements.

The distribution of this Pricing Supplement and the Offering Memorandum, or any part thereof, and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. We, the Initial Purchasers and the Argentine Placement Agents require persons into whose possession this Pricing Supplement or the Offering Memorandum come to become familiar with and to observe such restrictions. Neither this Pricing Supplement nor

the Offering Memorandum constitute an offer to sell or a solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation, nor do this Pricing Supplement or the Offering Memorandum constitute an invitation to subscribe for or purchase any Notes. For a description of restrictions on offers, sales and deliveries of the Notes and on the distribution of this Pricing Supplement and the Offering Memorandum, see “Transfer Restrictions” and “Subscription and Sale” in the Offering Memorandum and “Subscription and Sale” in this Pricing Supplement.

RISK FACTORS

Investing in the Notes involves certain significant risks. Before making a decision to purchase the Notes, prospective investors should carefully consider the risk factors discussed under “Risk Factors” beginning on page 11 in the Offering Memorandum.

If the Argentine peso depreciates against the U.S. dollar, the effective yield on the Notes in U.S. dollars will decrease and the principal amount of the Notes in U.S. dollars may be less than your initial investment, resulting in a loss to you.

Payments of interest on and principal of the Notes will be calculated in Argentine pesos and converted by the Calculation Agent into U.S. dollars at the Reference Exchange Rate. See “Description of the Notes” herein. You are assuming the foreign exchange risk in connection with payments on the Notes. Rates of exchange between the U.S. dollar and the Argentine peso have varied significantly over time particularly since the reforms implemented by the Macri administration in December 2015. Historical trends do not necessarily indicate future fluctuations in exchange rates, and should not be relied upon as indicative of future trends. Currency exchange rates can be volatile and unpredictable. If the Argentine peso depreciates against the U.S. dollar subsequent to the date you invested in the Notes, the interest payable on the Notes in U.S. dollar terms will decrease and the amount of principal payable in U.S. dollars may be less than your investment, resulting in a loss to you. Depreciation of the Argentine peso against the U.S. dollar may also adversely affect the market value of the Notes. For a history of the exchange rate between the Argentine peso and the U.S. dollar, see “Exchange Rates and Exchange Controls” in the Offering Memorandum.

TERMS AND CONDITIONS OF THE NOTES

The following items describe the particular terms and conditions that relate to the Notes and should be read together with the “Description of the Notes” in the Offering Memorandum, which sets forth certain material terms of the Notes not set forth in this Pricing Supplement. To the extent the following description of additional terms and conditions of the Notes is inconsistent with that set forth in the accompanying Offering Memorandum, the following description supersedes that in the accompanying Offering Memorandum.

1. Issuer Banco Hipotecario S.A.
2. Series No. 48
3. Title Floating Rate Notes Due 2022, Series 48
4. Aggregate Principal Amount..... Ps.6,300,000,000
5. Issue Date November 7, 2017.
6. Stated Maturity..... The final maturity of the Notes will be November 7, 2022.
7. Issue Price 100.000%, plus accrued interest, if any, from November 7, 2017.
Investors will pay the subscription price of the Notes in U.S. dollars based on the Initial Exchange Rate of Ps.17.6689 per US\$1.00.
8. Specified Currency..... The Notes will be denominated and issued in Argentine pesos.
We will pay all amounts in respect of the principal of and interest due on the Notes and any Additional Amounts in U.S. dollars, as calculated by the Calculation Agent, by converting the Argentine peso amounts into U.S. dollars at the Applicable Exchange Rate on the applicable Calculation Date. See “Description of the Notes— Currency of Payment” herein.
9. Initial Exchange Rate Ps.17.6689 (the arithmetic average (adjusted to four decimal places) of the exchange rate published by the Central Bank through Communication “A” 3500 on each of the three (3) Business Days prior to the date hereof, on its website (which at the date hereof, is located at http://www.bcra.gob.ar/PublicacionesEstadisticas/Tipos_de_cambios.asp)).
10. Amortization Payment of principal of the Notes will be made in three installments as follows: Ps.2,097,900,000 on May 7, 2022, Ps.2,097,900,000 on August 7, 2022 and Ps.2,104,200,000 on November 7, 2022.
11. Interest Rate:
 - a. Interest Rate..... The Notes will accrue interest at an annual floating rate equivalent to the sum of (i) the Reference Rate (or the Initial Reference Rate, solely for the first Interest Rate Period) *plus* (ii) the Margin.

The Interest Rate for each period (other than for the first Interest Rate Period) will be reset quarterly and calculated by the Calculation Agent on the Calculation Date immediately prior to the beginning of the relevant Interest Rate Period. The Interest Rate for the first Interest Rate Period will be calculated on the date hereof. The Interest Rate will in no case be lower than the Minimum Interest Rate.

- b. Interest Payment Dates Quarterly in arrears on February 7, May 7, August 7 and November 7 of each year, commencing on February 7, 2018 (each, an “Interest Payment Date”).
- c. Regular Record Dates..... February 3, May 3, August 3 and November 3 immediately preceding the relevant Interest Payment Date.
- e. Interest Rate Periods..... The period beginning on, and including, an Interest Payment Date and ending on, but excluding, the next succeeding Interest Payment Date (each, an “Interest Rate Period”); *provided* that the first Interest Rate Period will begin on, and include, the Issue Date and will end on, but exclude, the first Interest Payment Date.
- f. Day Count Basis..... Based on a year of 365 days and the actual number of days elapsed.
- g. Reference Rate The arithmetic average of the Private Badlar Rate published on each of the three (3) Business Days prior to the applicable Calculation Date.
- The “Private Badlar Rate” is the arithmetic average of the interest rate for fixed term deposits of more than Ps.1,000,000 with maturities of between 30 and 35 days paid by private banks in Argentina, as published by the Central Bank on its website (which at the date hereof, is located at http://www.bcra.gov.ar/PublicacionesEstadisticas/Principales_variabl es_datos.asp?descri=18&fecha=Fecha_Ref&campo=Bad_pri_pes).
- If the Central Bank ceases to publish the Private Badlar Rate, (i) the Calculation Agent will use the replacement of the Private Badlar Rate that the Central Bank publishes for calculating the Reference Rate or (ii) if a substitute rate does not exist or is not published, we will provide the Calculation Agent the Reference Rate calculated by us based on the arithmetic average of the three (3) Business Days prior to the Calculation Date of time deposits of more than Ps.1,000,000 with maturities of between 30 and 35 by three (3) of the ten (10) largest private banks in Argentina in terms of deposits based on the latest information published by the Central Bank on its website.
- h. Initial Reference Rate 21.9375% (the arithmetic average of the Private Badlar Rate published on each of the three (3) Business Days prior to the date hereof).
- i. Margin 4.000% per annum.
- j. Minimum Interest Rate..... Shall not be less than 17% per annum.
12. Additional Issuances In the future, we may issue additional notes from time to time and without notice to, or the consent of, holders of the Notes; *provided* that such additional notes have the same terms and conditions in all respects as the Notes described herein (except for the Issue Date, the Issue Price and the initial Interest Payment Date). Any such additional notes will constitute a single series with the Notes offered hereby; *provided* that if the additional notes are not fungible with the Notes offered hereby for U.S. federal income tax purposes, such additional Notes will be issued with a separate identification code from the Notes offered hereby.
13. Payments Payments in respect of the Notes will be made by us in U.S. dollars outside Argentina to The Depository Trust Company (“DTC”), or its nominee.

14. Applicable Exchange Rate The arithmetic average of the three (3) Business Days prior to the Calculation Date of the exchange rate published by the Central Bank through Communication “A” 3500 (or any other regulation which may succeed or amend it) on its website (which at the date hereof, is located at http://www.bcra.gob.ar/PublicacionesEstadisticas/Tipos_de_cambios.asp), based on the exchange inquiry procedure established therein, as calculated by the Calculation Agent. If the exchange rate established by the Central Bank is not available, we will provide the Calculation Agent with the Applicable Exchange Rate calculated by us based on the arithmetic average of the three (3) Business Days prior to the Calculation Date of the selling exchange rate published by three (3) of the ten (10) largest Argentine private banks in terms of deposits based on the latest information published by the Central Bank on its website.
15. Calculation Date..... The second Business Day preceding each scheduled interest or principal payment date or any other date on which principal or interest shall become payable as a result of an acceleration of the maturity of the Notes or otherwise.
16. Redemption for Taxation
Reasons The Notes may be redeemed at the option of the Bank in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ written notice (which will be irrevocable) to the holders and, if applicable, the CNV, in writing, at 100% of the principal amount thereof, together with any accrued but unpaid interest and any Additional Amounts to the date fixed for redemption, if, as a result of any change in, or amendment to, the laws (or any regulations or rules issued thereunder) of Argentina or any political subdivision of or any taxing authority in Argentina or any change in the application, administration or official interpretation of such laws, regulations or rules, including, without limitation, the holding of a court of competent jurisdiction, the Bank has or will become obligated to pay Additional Amounts on or in respect of such Notes, which change or amendment becomes effective on or after the date of issuance of the Notes, and the Bank determines in good faith that such obligation cannot be avoided by the Bank taking reasonable measures available to it. See “Description of the Notes—Redemption and Repurchase—Redemption for Taxation Reasons” herein.
17. Ranking The Notes will constitute *obligaciones negociables simples no convertibles en acciones* (simple, non-convertible notes) under Argentine law and will be issued pursuant to, and in compliance with, all of the requirements of the Negotiable Obligations Law and any other applicable Argentine laws and regulations.
- The Notes will constitute our unsecured and unsubordinated obligations and will rank at least *pari passu* in right of payment with our other unsecured and unsubordinated indebtedness (other than obligations preferred by statute or by operation of law).
18. Additional Amounts All payments of principal, premium or interest by us in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, penalties, fines, duties, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of Argentina, or any political subdivision thereof or any authority therein having power to tax

	(“Taxes”), unless we are compelled by law to deduct or withhold such Taxes. In any such event, subject to certain exceptions, we will pay such additional amounts (“Additional Amounts”) in respect of Taxes as may be necessary to ensure that the amounts received by holders of such Notes after such withholding or deduction will equal the respective amounts that would have been receivable in respect of such Notes in the absence of such withholding or deduction. See “Description of the Notes—Additional Amounts” herein.
19. Use of Proceeds.....	We will use the proceeds from the issuance of Notes in compliance with the requirements set forth in article 36 of the Negotiable Obligations Law, Communication “A” 3046, as amended and supplemented by Communication “A” 5571, of the Central Bank and other applicable regulations. See “Use of Proceeds” herein.
20. Defeasance	The defeasance provisions in the Indenture will apply to the Notes; <i>provided</i> that in order to exercise either the legal defeasance or covenant defeasance, we must (i) irrevocably deposit with the Trustee U.S. dollars in such amount as will be sufficient to pay the principal, interest, Additional Amounts and any other amounts due in respect of the Notes then outstanding on the Stated Maturity of the Notes, and (ii) comply with certain other conditions, including, without limitation, the delivery to the Trustee of opinions of nationally recognized counsels in the United States and in Argentina experienced in such tax matters to the effect that the deposit and related defeasance would not cause the holders of the Notes to recognize income, gain or loss under the tax laws of the applicable jurisdictions as well as to other relevant matters.
21. Minimum Denominations	Ps.1,000,000 and multiples of Ps.1,000 in excess thereof.
22. Minimum Subscription Amount.....	Ps.1,000,000 and multiples of Ps.1,000 in excess thereof.
23. Value for Purposes of Computing Voting Rights	Each Ps.1.00 of principal amount of the Notes entitles the holder to one vote for purposes of computing voting rights.
24. Listing and Trading	The Notes are a new issue and there is no current trading market for the Notes. Application will be made to have the Notes listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market and listed and admitted for trading on the BYMA and the MAE. The Initial Purchasers are not obligated to make a market in the Notes, and any market making with respect to the Notes may be discontinued without notice. Accordingly, there can be no assurance as to the maintenance or liquidity of any market for the Notes.
25. Syndication	
a. Joint Book-Running Managers	Credit Suisse Securities (USA) LLC J.P. Morgan Securities plc BCP Securities, LLC
b. Argentine Placement Agents.....	Banco Hipotecario S.A. BACS Banco de Crédito y Securitización S.A.
26. Form of Notes	The Notes will initially be issued in the form of one fully registered Restricted Global Note and one fully registered Regulation S Global Note.

27. Codes
- a. CUSIP..... Rule 144A: 05961A AG8
Regulation S: P1330H BG8
 - b. ISIN..... Rule 144A: US05961AAG85
Regulation S: USP1330HBG85
 - c. Common Code..... Rule 144A: 111731098
Regulation S: 111730997
28. Governing Law New York State law; *provided* that all matters relating to the due authorization, execution, issuance and delivery of the Notes by us, and matters relating to the legal requirements necessary in order for the Notes to qualify as *obligaciones negociables* under Argentine law, will be governed by the Negotiable Obligations Law together with Argentine Companies Law No. 19,550, as amended (the “Argentine Companies Law”) and other applicable Argentine laws and regulations.
29. Jurisdiction..... We will irrevocably submit to the non-exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan, City of New York, United States of America, any Argentine court sitting in the City of Buenos Aires, including the ordinary courts for commercial matters and the *Tribunal de Arbitraje General* (Permanent Arbitral Tribunal) of the *Bolsa de Comercio de Buenos Aires* (Buenos Aires Stock Exchange or the “BCBA”) under the provisions of Article 46 of the Capital Markets Law and by delegation of authority granted by the BYMA regarding constitution of arbitration tribunals, in accordance with the provisions of Resolution No. 18,629 of the CNV (the “Arbitral Tribunal of the BCBA”). Notwithstanding the foregoing, in accordance with Article 46 of the Capital Markets Law, holders may submit disputes regarding the Notes to the non-exclusive jurisdiction of the Arbitral Tribunal of the BCBA in accordance with Article 46 of the Capital Markets Law or the judicial commercial courts of the City of Buenos Aires, at the option of the holder at question. In turn, in cases where the current rules provide for the accumulation of actions brought for the same purpose before a single court, the accumulation will be made before the judicial tribunal.
30. Clearance..... The Notes will be delivered in book-entry form through the facilities of DTC and its direct and indirect participants, including Clearstream Banking, *société anonyme* (“Clearstream”) and Euroclear Bank S.A./N.V. (“Euroclear”).
31. Trustee, Co-Registrar,
Calculation Agent, Paying Agent
and Transfer Agent..... Deutsche Bank Trust Company Americas
32. Registrar, Local Paying Agent,
Local Transfer Agent and
Representative of the Trustee in
Argentina..... Banco COMAFI S.A.
33. Luxembourg Listing Agent Greenlit Consultancy Sarl

USE OF PROCEEDS

Our proceeds from the issuance and sale of the Notes are expected to be approximately Ps.6,244 million (equivalent to approximately US\$353.4 million), after deduction of fees and expenses. We will use the proceeds from the issuance of the Notes in accordance with the provisions of Article 36 of the Negotiable Obligations Law, Communication “A” 3046 of the Central Bank, as amended and supplemented by Communication “A” 5571, of the Central Bank, as amended, and other applicable regulations, for:

- working capital in Argentina;
- investments in tangible assets located in Argentina;
- loan origination in accordance with Central Bank regulations and Central Bank Accounting Rules; *provided* that such loans are used for any of the above purposes; or
- refinancing of liabilities in the ordinary course of business.

Pending their final application, we expect to invest the proceeds in government securities and other short-term investments.

CAPITALIZATION

The following table sets forth our capitalization and indebtedness as of June 30, 2017, in thousands of pesos and U.S. dollars, presented in accordance with Central Bank Accounting Rules. This table should be read in conjunction with, and is qualified in its entirety by reference to, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes, all appearing elsewhere in the Offering Memorandum.

	As of June 30, 2017			
	(in thousands of Ps.)	(in thousands of US\$ ⁽¹⁾) (unaudited)	(in thousands of Ps.)	(in thousands of US\$ ⁽¹⁾)
Short-term debt⁽²⁾				
Deposits	19,657,688	1,184,305	19,657,688	1,184,305
Notes	2,426,264	146,174	2,426,264	146,174
Financial institutions	416,511	25,093	416,511	25,093
Interest payable	827,787	49,871	827,787	49,871
Total short-term debt	23,328,250	1,405,443	23,328,250	1,405,443
Long-term debt⁽²⁾				
Deposits	22,309	1,344	22,309	1,344
Notes outstanding	16,277,293	980,648	16,277,293	980,648
Notes offered hereby ⁽³⁾	—	—	6,300,000	379,552
Total long-term debt	16,299,602	981,992	22,599,602	1,361,544
Capital				
Capital stock ⁽⁴⁾	1,500,000	90,370	1,500,000	90,370
Non-capitalized contributions	834	50	834	50
Adjustments to shareholders’ equity	717,115	43,204	717,115	43,204
Statutory reserves ⁽⁵⁾	1,129,962	68,076	1,129,962	68,076
Other reserves	1,052,465	63,407	1,052,465	63,407
Accumulated profit	2,280,829	137,412	2,280,829	137,412
Total shareholders’ equity	6,681,205	402,519	6,681,205	402,519
Total capitalization	46,309,057	2,789,954	52,609,057	3,169,506

- (1) The exchange rate used for purposes of translation of amounts as of June 30, 2017 was Ps.16.5985 = US\$1.00 in accordance with the reference exchange rate published by the Central Bank as of such date.
- (2) Short-term debt is indebtedness the residual maturity of which is within one year of the balance sheet date. Long-term debt is any debt the maturity of which exceeds such period.
- (3) It does not take into account estimated issue expenses of Ps.56 million approximately.
- (4) Includes subscribed and paid-in capital for 1.5 billion common shares, the par value of which is Ps.1.00 per share.
- (5) Consists primarily of non-distributable legal reserves established pursuant to Central Bank regulations in an annual amount equal to 20.0% of net income plus any adjustments from prior years. The earnings reserves may only be used during periods when we have net losses and have depleted our reserves. Consequently, no dividends may be distributed if the legal reserve has been reduced.

DESCRIPTION OF THE NOTES

The following is a description of certain additional terms and conditions of the Notes. This description supplements, and should be read in conjunction with, the description of the terms and conditions of Notes described under “Description of the Notes” set forth in the accompanying Offering Memorandum. All references, to the “Bank” set forth in the “Description of the Notes” herein and in the accompanying Offering Memorandum shall mean Banco Hipotecario S.A., unless the context suggests otherwise. To the extent the following description of additional terms and conditions of the Notes is inconsistent with that set forth in the accompanying Offering Memorandum, the following description supersedes that in the accompanying Offering Memorandum.

General

The Notes are to be issued under an indenture (the “Indenture”) to be entered into by and among us, Deutsche Bank Trust Company Americas, as trustee (in such capacity, the “Trustee”), co-registrar (in such capacity, the “Co-Registrar”), calculation agent (in such capacity, the “Calculation Agent”), principal paying agent (in such capacity, the “Principal Paying Agent” and, together with any other paying agents under the Indenture, the “Paying Agents”) and transfer agent (in such capacity, a “Transfer Agent”, and together with any other transfer agents under the Indenture, the “Transfer Agents”), and Banco COMAFI S.A., as registrar (in such capacity, the “Registrar”), local paying agent, local transfer agent and representative of the Trustee in Argentina (in such capacities, the “Representative of the Trustee in Argentina”). Each determination of the Calculation Agent will, in the absence of manifest error, be conclusive for all purposes and binding on us and the holders of the Notes. The following is a description of the material provisions of the Indenture. It does not contain all of the provisions of the Indenture. You are encouraged to read the Indenture in its entirety because it defines your rights as a holder of the Notes. This description is qualified in its entirety by reference to all of the provisions of the Indenture and the Notes, including the definitions therein of certain terms.

The Notes offered hereby:

- will be unsecured, unsubordinated obligations of the Bank;
- payment of principal of the Notes will be made in three installments as follows: Ps.2,097,900,000 on May 7, 2022, Ps.2,097,900,000 on August 7, 2022 and Ps.2,104,200,000 on November 7, 2022. The principal amount will be payable in U.S. dollars. The Calculation Agent will convert the principal amount due in Argentine pesos into U.S. dollars at the Applicable Exchange Rate on the Calculation Date;
- will be issued on or about November 7, 2017. The Notes are initially limited to an aggregate principal amount of Ps.6,300,000,000;
- will have a final maturity of November 7, 2022 (the “Stated Maturity”); and
- will be issued in denominations of Ps.1,000,000 and multiples of Ps.1,000 in excess thereof.

Interest on the Notes will:

- accrue from November 7, 2017, or if interest has already been paid, from the most recent Interest Payment Date to but excluding the next Interest Payment Date, on the unpaid principal amount at each Calculation Date. See “—Interest Rate”;
- be calculated by the Calculation Agent based on the principal amount outstanding in Argentine pesos and be payable quarterly in cash and in U.S. dollars on February 7, May 7, August 7 and November 7 of each year, beginning on February 7, 2018, each, an “Interest Payment Date”;
- accrue at an annual floating rate equivalent to the sum of (i) the Reference Rate (or the Initial Reference Rate, solely for the first Interest Rate Period) *plus* (ii) the Margin. The Interest Rate for each period (other than the first Interest Rate Period) will be reset quarterly and calculated by the Calculation Agent on the Calculation Date immediately prior to the beginning of the relevant Interest Rate Period. The Interest Rate for the first Interest Rate Period will be calculated on the date hereof. The Interest Rate will in no case be lower than the Minimum Interest Rate. Each interest payment will

be calculated by the Calculation Agent using the Applicable Exchange Rate on the relevant Calculation Date;

- be at a minimum interest rate of 17% per annum (the “Minimum Interest Rate”);
- be payable to the holders of record at the close of business on the February 3, May 3, August 3 and November 3 immediately preceding the related Interest Payment Dates;
- be computed on the basis of a year of 365 days and the actual number of days elapsed; and
- be calculated based on the period beginning on, and including, an Interest Payment Date and ending on, but excluding, the next succeeding Interest Payment Date (each, an “Interest Rate Period”); *provided* that the first Interest Rate Period will begin on, and include, the Issue Date and will end on, but exclude, the first Interest Payment Date.

“Initial Reference Rate” is 21.9375% (the arithmetic average of the Private Badlar Rate published on each of the three (3) Business Days prior to the date hereof).

“Private Badlar Rate” is the arithmetic average of the interest rate for fixed term deposits of more than Ps.1,000,000 with maturities of between 30 and 35 days paid by private banks in Argentina, as published by the Central Bank on its website (which at the date hereof, is located at http://www.bcra.gov.ar/PublicacionesEstadisticas/Principales_variables_datos.asp?descri=18&fecha=Fecha_Ref&campo=Bad_pri_pes).

If the Central Bank ceases to publish the Private Badlar Rate, (i) the Calculation Agent will use the replacement of the Private Badlar Rate that the Central Bank publishes for calculating the Reference Rate or (ii) if a substitute rate does not exist or is not published, we will provide the Calculation Agent the Reference Rate calculated by us based on the arithmetic average of the three (3) Business Days prior to the Calculation Date of time deposits of more than Ps.1,000,000 with maturities of between 30 and 35 days by three (3) of the ten (10) largest private banks in Argentina in terms of deposits according to the latest information published by the Central Bank on its website.

“Margin” is 4.000% per annum.

“Reference Rate” is the arithmetic average of the Private Badlar Rate published on each of the three (3) Business Days prior to the applicable Calculation Date.

The Notes outstanding at any one time under the Global Note Program will be limited to an aggregate principal amount of US\$1,500,000,000 (or its equivalent in Argentine pesos or other currencies). The Notes issued under the Indenture will qualify as “*obligaciones negociables simples no convertibles*” under Argentine law and will be issued pursuant to, and in compliance with, all of the requirements of the Negotiable Obligations Law and any other applicable Argentine laws and regulations.

Currency of Payment

The Notes will be issued and denominated in Argentine pesos and all payments of principal, premium, if any, Additional Amounts, if any, and interest due on the Notes will be made in U.S. dollars. Principal and interest payments and any Additional Amounts will be determined by the Calculation Agent, based on the amounts outstanding on any relevant Calculation Date using the applicable Interest Rate and be converted from pesos to U.S. dollars using the Applicable Exchange Rate on the Calculation Date. So long as the Notes remain outstanding, we will maintain a Calculation Agent.

The Calculation Agent will notify the Trustee and the holders of the Notes, the Applicable Exchange Rate and the amount in U.S. dollars to be paid for each Ps.1,000 outstanding on each Calculation Date.

“Applicable Exchange Rate” is the arithmetic average for the three (3) Business Days prior to the Calculation Date of the exchange rate published by the Central Bank through Communication “A” 3500 (or any other regulation which may succeed or amend it) on its website (which at the date hereof, is located at http://www.bcra.gov.ar/PublicacionesEstadisticas/Tipos_de_cambios.asp), based on the exchange inquiry procedure established therein, as calculated by the Calculation Agent. If the exchange rate established by the Central Bank is not available, we will provide the Calculation Agent with the Applicable Exchange Rate

calculated by us based on the arithmetic average of the three (3) Business Days prior to the Calculation Date of the selling exchange rate published by three (3) of the ten (10) largest Argentine private banks in terms of deposits based on the latest information published by the Central Bank on its website.

“Calculation Date” will be the second Business Day preceding each scheduled interest or principal payment date or any other date on which principal or interest shall become payable as a result of an acceleration of the maturity of the Notes or otherwise.

“Initial Exchange Rate” is Ps.17.6689 (the arithmetic average (adjusted to four decimal places) of the exchange rate published by the Central Bank through Communication “A” 3500 on each of the three (3) Business Days prior to the date hereof, on its website (which at the date hereof, is located at http://www.bcra.gob.ar/PublicacionesEstadisticas/Tipos_de_cambios.asp)).

Ranking

The Notes will constitute “*obligaciones negociables*” under the Capital Markets Law, the CNV Rules and the Negotiable Obligations Law and will be entitled to the benefits set forth therein and subject to the procedural requirements established therein. In particular, pursuant to Section 29 of the Negotiable Obligations Law, in case the Bank defaults in the payment of any amounts outstanding under the Notes of any series, the holder of such Notes will be entitled to file a summary action (*acción ejecutiva*) in Argentina for collection of such amount.

The Notes will constitute unsecured and unsubordinated obligations of the Bank and will rank at least *pari passu* in right of payment with the other unsecured and unsubordinated indebtedness of the Bank (other than obligations preferred by statute or by operation of law).

Specifically, pursuant to the Financial Institutions Law, all existing and future depositors of the Bank will have a general priority over the holders of Notes issued under our Global Note Program. The Financial Institutions Law provides that, in the event of judicial liquidation or bankruptcy, all depositors, whether individuals or legal entities, and whichever the type, amount or currency of their deposits, will have general and absolute priority over any other of our creditors (including the holders of the Notes), except for certain labor and secured creditors.

In addition, except with respect to labor claims and claims secured by a pledge or mortgage, the holders of any type of deposits will have a priority over (i) the funds held by the Central Bank as reserves, (ii) other existing funds held by the Central Bank as reserves, (iii) other funds existing on the date when our authorization is revoked and (iv) the proceeds generated from the mandatory transfer of our assets as determined by the Central Bank to be paid in the following order of priority to our remaining creditors: (a) deposits of up to Ps.350,000 per person or corporation (considering all amounts of such person/corporation deposited in one financial institution) or its equivalent amount in foreign currency, with priority right granted to one person per deposit (in the case of more than one account holder, the amount is pro-rated among such account holders); (b) any deposits greater than Ps.350,000 or its equivalent in foreign currency, for the amounts exceeding such sum; and (c) liabilities derived from credit facilities granted to the Bank, which directly affect international trade. Also, under Section 53 of the Financial Institutions Law, any claims of the Central Bank will have priority over any other creditors, except for creditors secured by a pledge or mortgage, certain labor creditors and depositors (in the terms set forth above), facilities granted pursuant to the Central Bank’s Charter (rediscounts granted to financial institutions in the event of a temporary lack of liquidity, advances to financial institutions under a bond, bond assignment, pledge or special assignment of certain assets), and facilities granted by the Argentine Bank Liquidity Fund and secured by a pledge or mortgage collateral.

Global Notes

Notes initially sold outside the United States in reliance on Regulation S under the Securities Act will be represented by one or more fully registered Notes in global form (collectively, the “Regulation S Global Note”) which will be deposited with the Trustee in New York City as custodian for DTC and will be registered in the name of a nominee of DTC, for its direct and indirect participants (including Clearstream and Euroclear).

Notes initially sold within the United States and eligible for resale in reliance on Rule 144A under the Securities Act will be represented by one or more fully registered Notes in global form (collectively, the “Restricted Global Note” and, together with the Regulation S Global Note, the “Global Notes”) which will be deposited upon issuance with the Trustee in New York City as custodian for DTC and will be registered in the name of DTC or a nominee of DTC for credit to an account of a direct or indirect participant in DTC as described below. The Restricted Global Note (and any physical Notes in definitive form (“Certificated Notes”) issued in exchange therefor

as described below under “—Certificated Notes”) will be subject to certain restrictions on transfer and will bear a legend to that effect as described under “Transfer Restrictions” in the Offering Memorandum.

On or prior to the 40th day after the completion of the distribution of all Notes (the “Distribution Compliance Period”), a beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Note, but only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made to a person whom the transferor reasonably believes is purchasing for its own account or accounts as to which it exercises sole investment discretion and that such person and each such account is a qualified institutional buyer within the meaning of Rule 144A, in each case in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States (a “Restricted Global Note Certification”). After the last day of the Distribution Compliance Period, such certification requirement will no longer apply to such transfers. Beneficial interests in the Restricted Global Note may be transferred to a person in the form of an interest in the Regulation S Global Note, whether before, on or after the end of the Distribution Compliance Period, but only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S (a “Regulation S Global Note Certification”). Any beneficial interest in a Global Note that is transferred to a person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in such other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such an interest.

A Global Note may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor of DTC or a nominee of such successor.

Upon the issuance of a Global Note, DTC will credit, on its book-entry registration and transfer system, the respective principal amounts of the notes represented by such Global Note to the accounts of institutions that have accounts with DTC (“participants”). The accounts to be credited shall be designated by the Initial Purchasers. Ownership of beneficial interests in a Global Note will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in such Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC (with respect to interests of participants), or by participants or persons that hold through participants (with respect to interests of persons other than participants).

So long as DTC, or its nominee, is the holder of a Global Note, DTC or its nominee, as the case may be, will be considered the sole registered owner or holder of the notes represented by such Global Note for all purposes under the Indenture.

Except as set forth below under “—Certificated Notes”, owners of beneficial interests in a Global Note will not be entitled to have notes represented by such Global Note registered in their names, will not receive or be entitled to receive Certificated Notes and will not be considered the owners or holders thereof under the Indenture.

Payments of principal of and premium (if any) and interest on notes registered in the name of or held by DTC or its nominee will be made to DTC or its nominee, as the registered owner or the holder of the Global Note representing such Notes. Neither we nor the Trustee or any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

We expect that DTC, upon receipt of any payment of principal of or premium (if any) or interest in respect of a Global Note, will credit participants’ accounts with payments in amounts proportionate to their respective beneficial ownership interests in the principal amount of such Global Note as shown on the records of DTC. We also expect that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such participants.

DTC

DTC has advised us as follows: DTC is a limited-purpose trust company organized under the laws of the State of New York, a “banking organization” within the meaning of the New York Banking Law, a member of the

Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participating organizations (“DTC Participants”) and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, brokers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (“Indirect DTC Participants”).

Under the rules, regulations and procedures creating and affecting DTC and its operations, DTC is required to make book-entry transfers between DTC Participants on whose behalf it acts with respect to the Notes and is required to receive and transmit distributions of principal of and interest on the Notes. DTC Participants and Indirect DTC Participants with which investors have accounts with respect to the Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective investors.

Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of Indirect DTC Participants and certain banks, the ability of a person having a beneficial interest in Notes held in DTC to transfer or pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate of such interest. The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in Notes held in DTC to such persons may be limited.

DTC has advised us that it will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Notes for exchange as described above) only at the direction of one or more participants to whose account with DTC interests in the Notes are credited, and only in respect of such portion of the aggregate principal amount of the Notes as to which such DTC Participant or Participants has or have given such direction. However, in certain circumstances, DTC will exchange the Global Notes held by it for Certificated Notes, which it will distribute to its participants and which, if representing interests in the Restricted Global Note, will be legended as set forth under “Transfer Restrictions” in the Offering Memorandum. See “—Certificated Notes”.

Certificated Notes

Interests in a Global Note deposited with DTC will be exchanged for Certificated Notes only if (i) DTC notifies us and the Trustee that it is unwilling or unable to continue as depository for such Global Note or at any time DTC ceases to be a clearing agency registered under the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), and a successor depository so registered is not appointed by us within 90 days of such notice, (ii) an Event of Default has occurred and is continuing with respect to the Notes represented by such Global Note or (iii) we in our sole discretion notify the Trustee in writing that Certificated Notes will be delivered in exchange for such Global Note with respect to the Notes. In the case of Certificated Notes issued in exchange for the Restricted Global Note, such certificates will bear, and be subject to, the legends referred to under “Transfer Restrictions” in the Offering Memorandum.

None of the Trustee, the Registrar, the Co-Registrar, the Transfer Agent will be required to register the transfer or exchange of any Certificated Notes for a period of 15 days preceding any interest payment date, or for a period of 30 days preceding any date established for the payment of principal, or register the transfer or exchange of any Certificated Notes previously called for redemption or tendered for repurchase.

No service charge will be made for any registration of transfer or exchange of notes, but we or the Trustee may require payment of a sum sufficient to cover any stamp tax or other governmental duty payable in connection therewith.

Interest Rate

The Notes will bear interest at an annual floating rate from (and including) the date of original issuance or from the most recent Interest Payment Date to which interest on such Note has been paid or duly provided for at such floating rate, until the principal thereof is paid or made available for payment. Interest will be payable in arrears on each February 7, May 7, August 7 and November 7 and at the Stated Maturity and upon redemption or acceleration, as specified under “Payment of Principal and Interest” below.

Payment of Principal and Interest

General

Interest will be payable to the person in whose name a Note is registered at the close of business on the regular record date preceding each Interest Payment Date notwithstanding the cancellation of such Notes upon any transfer or exchange thereof subsequent to such record date and prior to such Interest Payment Date; *provided* (i) that if and to the extent the Bank shall default in the payment of the interest (including Additional Amounts) due on such Interest Payment Date, such defaulted interest (including Additional Amounts) shall be paid to the person in whose names such Notes are registered at the end of a subsequent record date established by the Bank by notice given by mail by or on behalf of the Bank to the holders of the Notes not less than 15 days preceding such subsequent record date, such record date to be not less than 15 days preceding the date of payment in respect of such defaulted interest and (ii) that interest payable at Stated Maturity or upon acceleration or redemption will be payable to the person to whom principal shall be payable.

Payments of the principal of and any premium, interest, Additional Amounts and other amounts on or in respect of any Global Note will be made to DTC, in accordance with DTC's procedures, or its nominee (or any successor thereof) as the registered owner thereof (or any successor thereto). None of the Bank, the Trustee, the Registrar nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

Payments of the principal of and any premium, interest, Additional Amounts and other amounts on or in respect of any Certificated Note at Stated Maturity or upon acceleration or redemption will be made to the registered holder on the payment date in immediately available funds upon surrender of such Note at the corporate trust office of the Trustee, in the Borough of Manhattan, New York City, or at the office of any Paying Agent in the City of Buenos Aires or in Luxembourg by a check drawn on, or by transfer to an account maintained by the registered holder with, a bank located in New York City. Payments of the principal of and premium, interest, Additional Amounts and any other amounts on or in respect of Certificated Notes to be made other than at Stated Maturity or upon redemption, will be made by check drawn on a bank in New York City mailed on or before the due date for such payment to the address of the person entitled thereto as it appears in the Register; *provided* that a holder of Ps.15,000,000 in aggregate principal amount of Certificated Notes shall be entitled to receive such payment by wire transfer in immediately available funds to an account maintained by such holder at a bank located in New York City as may have been appropriately designated by such person to the Trustee in writing no later than 15 days prior to the relevant Interest Payment Date. Unless such designation is revoked, any such designation made by such person with respect to such Certificated Note will remain in effect with respect to any future payments with respect to such Certificated Note payable to such person.

Payments of interest on any Note with respect to any Interest Payment Date will include interest accrued to but excluding such Interest Payment Date.

If the Stated Maturity or the Interest Payment Date or any other payment date for any Note falls on a day that is not a Business Day, payment of principal (and premium, if any) and interest with respect to such Note will be made on the next succeeding Business Day in the place of payment with the same force and effect as if made on the due date and no interest on such payment will accrue from and after such due date.

Redemption and Repurchase

For as long as the Notes are outstanding, the below provisions will be the only provisions applicable to redemption and repurchase of the Notes.

Redemption at Maturity

Unless previously redeemed or purchased and canceled, Notes shall be redeemed at their principal amount on the date or dates specified herein.

Redemption for Taxation Reasons

The Notes may be redeemed at the option of the Bank in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' written notice (which will be irrevocable) to the holders and, if applicable, the CNV, in writing, at 100% of the principal amount thereof, together with any accrued but unpaid interest and any Additional Amounts to the date fixed for redemption, if, as a result of any change in, or amendment to, the laws (or any regulations or rules issued thereunder) of Argentina or any political subdivision of or any taxing authority in

Argentina or any change in the application, administration or official interpretation of such laws, regulations or rules, including, without limitation, the holding of a court of competent jurisdiction, the Bank has or will become obligated to pay Additional Amounts on or in respect of such Notes, which change or amendment becomes effective on or after the date of issuance of the Notes, and the Bank determines in good faith that such obligation cannot be avoided by the Bank taking reasonable measures available to it (*provided* that reasonable measures shall not include changing the Bank's jurisdiction of organization or the location of its principal executive office or incurring any cost or expense that the Bank deems in good faith to be material). Prior to the distribution of any notice of redemption pursuant to this paragraph, the Bank shall deliver to the Trustee (i) a certificate signed by a duly authorized officer of the Bank stating that the Bank has or will become obligated to pay Additional Amounts as a result of such change or amendment, and that the Bank has determined that such obligation cannot be avoided by the Bank taking reasonable measures available to it and (ii) a written opinion of independent legal counsel to the effect that the Bank has or will become obligated to pay Additional Amounts as a result of such change or amendment described above. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent contained in the preceding sentence, in which event they shall be conclusive and binding on the holders.

Redemption Procedures

The Bank will give a notice of redemption to each holder (which, in the case of Global Notes, will be DTC, or its nominee) in accordance with the procedures described under “—Notices” at least 30 days and not more than 60 days prior to the redemption date. A notice of redemption will be irrevocable.

Unless the Bank defaults in the payment of the redemption price, interest will cease to accrue on the Notes called for redemption on and after the redemption date. In the case of any partial redemption, selection of the Notes for redemption will be made by the Trustee in compliance with the requirements of the Luxembourg Stock Exchange, for so long as the Notes are listed on the Luxembourg Stock Exchange, or, if the Notes are not listed, to the extent permitted under applicable law, on a *pro rata* basis or by lot (in each case, subject to the procedures of DTC in the case of Global Notes). No Notes of Ps.1,000,000 in principal amount or less will be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion thereof will be issued in the name of the holder thereof upon cancellation of the original Note.

Repurchase of Notes

The Bank and its Subsidiaries may at any time purchase or otherwise acquire any Note in the open market or otherwise at any price and may resell or otherwise dispose of such Note at any time.

Cancellation

The Notes redeemed in full by the Bank will be immediately canceled and cannot be reissued or resold. If notice of redemption has been given in the manner set forth herein, Notes to be redeemed will become due and payable on the redemption date specified in such notice, and upon presentation and surrender of the Notes at the place or places specified in such notice, the Notes will be paid and redeemed by the Bank at the places and in the manner and currency therein specified and at the redemption price therein specified together with accrued interest, if any, to the redemption date. From and after the redemption date, if monies for the redemption of Notes called for redemption shall have been made available at the corporate trust office of the Trustee for redemption on the redemption date, the Notes called for redemption will cease to bear interest, and the only right of the holders of such Notes will be to receive payment of the redemption price together with accrued interest, if any, to the redemption date as aforesaid.

Additional Amounts

All payments of principal, premium or interest by us in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, penalties, fines, duties, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of Argentina, or any political subdivision thereof or any authority therein having power to tax (“Taxes”), unless we are compelled by law to deduct or withhold such Taxes. In any such event, subject to certain exceptions, we will pay such additional amounts (“Additional Amounts”) in respect of Taxes as may be necessary to ensure that the amounts received by holders of such Notes after such withholding or deduction will equal the respective amounts that would have been receivable in respect of such Notes in the absence of such withholding or deduction. No Additional Amounts will be payable:

(i) when such Taxes would not have been imposed but for the fact that the holder or beneficial owner of Notes has a present or former connection with Argentina other than the mere holding of such Notes and the receipt of any payments in respect thereof or enforcement of rights in respect thereof;

(ii) when such Taxes would not have been imposed but for the failure of the holder or beneficial owner of Notes to comply with any reasonable certification, identification, information or reporting requirements regarding the nationality, residence, identity or connection with Argentina of such holder or beneficial owner, as required by us at least thirty (30) days before the applicable interest payment date or principal payment date, as applicable, if such compliance is required by the laws or regulations of Argentina or any political subdivision or tax authority thereof as a precondition to exemption from, or reduction in the rate of, such Taxes; *provided* that any certification, identification, information or other reporting requirement would not be materially more onerous, in form, procedure or substance, than comparable information or other reporting requirements imposed under U.S. tax law, regulation and administrative practice (such as IRS Forms W-8BEN, W-8BEN-E and W-9);

(iii) in respect of any estate, inheritance, gift, sales, transfer, personal assets or similar tax, assessment or other governmental charge;

(iv) to or on behalf of a holder or beneficial owner of Notes in respect of Argentine taxes payable other than by withholding from payment of principal of, premium, if any, or interest on the Notes;

(v) in respect of Taxes imposed by reason of the fact that Notes were presented for payment more than thirty (30) days after the later of the date on which such payment became due and the date on which payment thereof has been duly provided for and notice of such payment is given to the holders, except to the extent that the holder of such Notes would have been entitled to such Additional Amounts had such Notes been presented on any day during such 30-day period;

(vi) in respect of any Taxes imposed under Sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended (or any amended or successor version of such Sections that is substantively comparable and not materially more onerous to comply with) (“FATCA”), any regulations or other guidance thereunder, any agreement (including any intergovernmental agreement) entered into in connection therewith, or any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA or an intergovernmental agreement in respect of FATCA; or

(vii) any combination of items (i) to (vi) above,

nor will additional amounts be paid with respect to any payment of the principal of, or any premium, if any, or interest on, any Notes to any holder or beneficial owner of Notes who is a fiduciary or partnership or other pass-through entity or other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of Argentina to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or other pass-through entity or beneficial owner who would not have been entitled to such Additional Amounts had it been the holder of such Notes.

Covenants

For as long as any Note is outstanding, the Bank will comply and to the extent specified below will cause its Subsidiaries (as defined below) to, comply with the terms of the following covenants (the “Covenants”).

Payment of Principal and Interest

The Bank will duly and punctually pay the principal of and interest and any Additional Amounts on the Notes in accordance with the terms of the Notes and the Indenture.

Maintenance of Corporate Existence; Properties

The Bank will (i) maintain in effect its corporate existence and all registrations necessary therefor, (ii) take all actions to maintain all rights, privileges, titles to property or franchises necessary in the normal conduct of its business and (iii) keep all its property used or useful in the conduct of its business in good working order and condition except in each case where the failure to so comply would not have a material adverse effect on the financial condition or results of operations of the Bank and its Subsidiaries taken as a whole; *provided* that this covenant shall not require the Bank to do so if the board of directors of the Bank shall determine in good faith that the maintenance or preservation thereof is no longer necessary or desirable in the conduct of the business of the Bank.

Compliance with Law

The Bank will, and will cause each of its Subsidiaries to, comply with all applicable laws, rules and regulations of each government agency having jurisdiction over it or its business except where the failure to so comply would not have a material adverse effect on the financial condition or results of operations of the Bank and its Subsidiaries taken as a whole.

Reports to Trustee

The Bank will furnish to the Trustee in English:

(i) within 120 days after the end of each fiscal year of the Bank (or, if later, the date on which the Bank is required to deliver to the CNV financial statements for the relevant fiscal period), a copy of the audited consolidated balance sheet of the Bank as of the end of such year and the related consolidated statements of income and retained earnings and of changes in financial position for such fiscal year;

(ii) within 90 days after the end of the first three fiscal quarters of each fiscal year of the Bank (or, if later, the date on which the Bank is required to deliver to the CNV financial statements for the relevant fiscal period), a copy of the unaudited consolidated balance sheet of the Bank as of the end of each such quarter and the related unaudited consolidated statements of income and retained earnings and changes in financial position for such quarter and the portion of the fiscal year through such date; all of the financial statements referred to in (i) and (ii) to be prepared in accordance with Central Bank Accounting Rules applied consistently throughout the periods reflected therein (except as otherwise expressly noted therein);

(iii) concurrently with the delivery of the financial statements referred to in clause (i) above, a certificate of an Authorized Person (as defined below) of the Bank or an external auditor stating that, to the best of such Authorized Person's knowledge, no Event of Default has occurred and is continuing except as specified in such certificate.

The Trustee shall have no obligation to determine if and when the Bank's financial statements or reports are publicly available and accessible electronically. Delivery of these reports, information and documents to the Trustee is for informational purposes only, and the Trustee's receipt of them will not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Bank's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on officer's certificates).

Maintenance of Books and Records

The Bank will maintain books, accounts and records in accordance in all material respects with the Rules and Regulations of the Central Bank, as amended from time to time.

Notice of Default

The Bank will give written notice to the Trustee, promptly after the Bank becomes aware thereof, of any Event of Default that has occurred and is continuing, accompanied by an officer's certificate setting forth the details of such Event of Default and stating what action the Bank proposes to take with respect thereto.

Further Actions

The Bank will use reasonable efforts to take any action or satisfy any condition (including seeking any necessary consent, approval, authorization, exemption, filing or license) at any time required by applicable laws and regulations to be taken, fulfilled or done in order to (i) enable it lawfully to perform its payment obligations under the Notes and the Indenture, (ii) ensure that those obligations are legally binding and enforceable and (iii) make the Notes and the Indenture admissible in evidence in the courts of Argentina.

Mergers, Consolidations, Sales

The Bank will not merge or consolidate with or into, or convey or transfer all or substantially all of its assets to any Person unless (i) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing, (ii) any resulting, surviving or transferee Person (if other than the Bank) formed by any such merger or consolidation, or the Person which acquires by conveyance or transfer such assets (the "Successor Person") expressly assumes, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, the due and punctual payment of the principal of, and interest on (including Additional Amounts, if any, that may result

due to withholding by any authority having the power to tax to which the Successor Person is or may be subject) all of the Notes and the Indenture, (iii) the Successor Person (except in the case of leases), if any, succeeds to and becomes substituted for the Bank with the same effect as if it had been named in the Notes as the Bank, and (iv) the Bank delivers to the trustee an officer's certificate, stating that such consolidation, merger or transfer and such supplemental indenture, if any, comply with the Indenture. Upon subscription of the Notes, holders irrevocably waive any and all rights that they may be entitled to under Argentine law to submit an opposition to any such merger or consolidation or transfer of assets in accordance with Argentine Companies Law, and other applicable Argentine laws and regulations and Bulk Transfer Law No. 11,867, as amended from time to time.

Negative Pledge

The Bank will not, and will not permit any of its Significant Subsidiaries to, create, incur, assume or suffer to exist any Lien, except a Permitted Lien, upon its present or future assets, to secure any Indebtedness unless at the same time or prior thereto, the Bank's obligations under the Notes and the Indenture, as the case may be, are secured equally and ratably therewith.

Certain Definitions

For the purposes of the covenants and the Events of Default:

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authorized Person" means any officer of the Bank duly authorized in writing to take actions under the Indenture on behalf of the Bank.

"Business Day" means each day that is not a Saturday, Sunday or other day on which banking institutions in New York, New York or Buenos Aires, Argentina, are authorized or required by law, decree or otherwise to close.

"Capital Stock" means, with respect to any Person, any and all shares, interests, participations, warrants, options, rights or other equivalents of or interests in (however designated and whether voting or non-voting) corporate stock of a corporation and any and all equivalent ownership interests in a Person (other than a corporation), in each case whether now outstanding or hereafter issued, including any preferred stock.

"Control" of a Person by another means that the other Person (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove the majority of the members of the board of directors or other governing body of that Person or otherwise controls or has the power to control the affairs and policies of that Person, and the terms "Controlling" and "Controlled" have meanings correlative to the foregoing.

"Governmental Authority" means any government or any state, department or other political subdivision thereof, or any governmental body, agency, authority (including without limitation any central bank, taxing authority, court or tribunal) or agent or instrumentality exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any corporation, partnership or other entity directly or indirectly owned by or Controlled by any of the foregoing.

"Hedging Obligations" means, with respect to any Person, the obligations of such Person pursuant to any interest rate swap agreement, foreign currency exchange agreement, interest rate cap or collar agreement, option or futures contract or other agreement or arrangement designed to protect such Person against changes in interest rates or foreign exchange rates.

"Indebtedness" means with respect to any Person, without duplication: (i) all obligations of such Person for borrowed money; (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments; (iii) all obligations of such Person under any lease that are required to be classified and accounted for as capital lease obligations under the rules of the Central Bank; (iv) guarantees of such Person in respect of Indebtedness referred to in clauses (i) through (iii) above and; (v) all Indebtedness of any other Person of the type referred to in clauses (i) through (iv) which is secured by any Lien on any property or asset of such Person; *provided* that the term "Indebtedness" will not include any of the following liabilities or obligations incurred by the Bank or

any of its Subsidiaries: (a) any deposits with or funds collected by the Bank or any of its Subsidiaries, (b) any check, note, certificate of deposit, draft or bill of exchange or similar instrument issued, accepted or endorsed by us or any of our Subsidiaries, (c) any transaction in which the Bank or any of its Subsidiaries act in a fiduciary or agency capacity, (d) any banker's acceptance or similar credit transaction, (e) any agreement to purchase or repurchase securities or loans or currency or to participate in loans and (f) any letters of credit issued by the Bank or any of its Subsidiaries.

"Issue Date" means November 7, 2017.

"Lien" means any mortgage, charge, security interest, pledge, hypothecation or similar encumbrance.

"Permitted Lien" means:

- (a) any Lien existing on the Issue Date;
- (b) any landlord's, workman's, carriers', warehousemen's, mechanics', materialmen's, repairmen's or similar Liens arising in the ordinary course of business;
- (c) any Lien on any asset (including Capital Stock) securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of constructing, acquiring or improving such asset, which Lien attached to such asset concurrently with or within 180 days after the completion of construction, acquisition or improvement thereof;
- (d) any Lien created in connection with: special lines of credit or advances granted to the Bank by or through local or foreign governmental entities (including, without limitation, the Central Bank, *Banco de Inversión y Comercio Exterior S.A.* ("BICE"), *Fondo Fiduciario de Asistencia a Entidades Financieras y de Seguros* ("FFA"), *Fondo Fiduciario para la Reconstrucción de Empresa* ("FFR"), *Seguro de Depósitos S.A.* ("SEDESA"), *Fondo de Liquidez Bancaria* ("FLB"), and export credit agencies) or any line of credit or loan granted by the International Bank for Reconstruction and Development and the Inter-American Development Bank, (the "*líneas especiales de crédito*"); rediscount loans (*redescuentos*) or advances granted by the Central Bank and by other Argentine government entities (including, without limitation, BICE, FFA, SEDESA, FFR and FLB) (the "*redescuentos*" or "*adelantos*"), each obtained in accordance with the applicable rules and regulations of the Central Bank or such other applicable rules and regulations governing *líneas especiales de crédito* or *redescuentos* or *adelantos*;
- (e) any Lien on any asset and/or property (including Capital Stock) (i) existing thereon at the time of acquisition of such asset and/or property or (ii) of any Person, at the time such Person is acquired by, or is merged or otherwise consolidated or combined with or into, the Bank or any of its Subsidiaries;
- (f) any Lien securing an extension, renewal or refunding of Indebtedness secured by a Lien referred to in (a), (c), (d), or (e) above; *provided* that such new Lien is limited to the property which was subject to the prior Lien immediately before such extension, renewal or refunding and *provided further* that the principal amount of Indebtedness secured by the prior Lien immediately before such extension, renewal or refunding is not increased;
- (g) any (i) inchoate Lien for taxes, assessments or governmental charges or levies not yet due (including any relevant extensions) or contested in good faith, (ii) Lien arising or incurred in connection with judgments or assessments (including tax or other statutory Liens) under circumstances not constituting an Event of Default or (iii) Lien arising by operation of law;
- (h) any Lien arising under any Permitted Receivables Financing;
- (i) any Lien securing Hedging Obligations;
- (j) any Lien the creation of which is permitted pursuant to applicable regulations issued by the Central Bank and/or by any other applicable governmental institution of Argentina permitted or created in the future by such entities, in connection with (i) repurchase agreements; (ii) our asset custody business; and (iii) our credit card business; and
- (k) any additional Lien; *provided* that on the date of the creation or assumption of such Lien, the Indebtedness secured by such Lien, together with all other Indebtedness of the Bank and its Significant Subsidiaries secured by a Lien under this clause, shall have an aggregate principal amount outstanding of no greater than 15% of the total consolidated assets of the Bank as set forth in the Bank's most recent consolidated financial statements.

“*Permitted Receivable Financing*” means any receivables financing facility or arrangement pursuant to which an entity purchases or otherwise acquires accounts receivable of the Bank or any Significant Subsidiaries and enters into a third party financing thereof.

“*Person*” means any individual, corporation (including a business trust), limited liability company, partnership, joint venture, association, joint stock company, trust, unincorporated organization or other entity, or government or any agency or political subdivision thereof.

“*Significant Subsidiary*” means, at any time, any of the Bank’s subsidiaries which is a “significant subsidiary” of the Bank within the meaning of Rule 1-02(w) of the U.S. Securities and Exchange Commission’s Regulation S-X.

“*Subsidiary*” means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of the Capital Stock thereof is at the time owned or Controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person or a combination thereof; *provided* that the term “Subsidiary” shall not include any trust established by or at the direction of the Bank, other than a trust which is Controlled by the Bank, other than by virtue solely of general provisions relating to voting rights of holders of any relevant securities in their capacity as such or otherwise by virtue of any holding of a specific number or amount of any such securities.

Events of Default

In case one or more of the following events (each an “Event of Default”) shall have occurred and be continuing with respect to the Notes:

(i) the Bank shall fail to pay any principal or interest (or Additional Amounts, if any) on the Notes on the date when it becomes due and payable in accordance with the terms thereof, and such failure continues for a period of ten (10) days (in the case of principal) or fifteen (15) days (in the case of interest or Additional Amounts, if any);

(ii) the Bank shall fail to duly perform or observe any other covenant applicable to the Notes in the Indenture and such failure shall continue unremedied for a period of 60 days after written notice specifying such default and requiring it to be remedied and stating that such notice is a “Notice of Default” has been received by the Bank from the Trustee and from the holders of at least 25% in aggregate principal amount of the outstanding Notes;

(iii) the Bank shall fail to pay at the final scheduled maturity thereof its Indebtedness, beyond the grace period, if any, provided in the agreement under which such Indebtedness was created, in a past due principal amount exceeding US\$50,000,000 (or the then equivalent thereof in another currency, each such equivalent to be determined by the Bank at the time of the relevant default and not be affected by subsequent changes in exchange rates at the time of determination), or any other event of default occurs under any agreement relating to any such Indebtedness which results in the acceleration of the final scheduled maturity of such Indebtedness in a past due principal amount exceeding US\$50,000,000 (or the equivalent thereof at the time of determination);

(iv) (a) a court having jurisdiction shall enter a final decree or order for (x) relief in respect of the Bank in an involuntary case under Argentine Law No. 21,526, as amended, Argentine Law No. 24,522 or any applicable bankruptcy, insolvency or similar law in effect from time to time or (y) the appointment under any applicable bankruptcy, insolvency or other similar law of an administrator, receiver or trustee for the Bank for all or substantially all of the assets of the Bank, and in each case such decree or order shall remain unstayed and in effect for a period of 60 consecutive days or (b) the Central Bank shall order a suspension of all or substantially all of the activities of the Bank pursuant to Article 49 of the charter of the Central Bank, and such suspension shall remain unstayed and in effect for a period of 60 consecutive days;

(v) the Bank shall (a) commence a voluntary case under Law No. 21,526, as amended, Law No. 24,522 or seeking liquidation or other relief with respect to its debts under any applicable bankruptcy, insolvency or similar law or (b) consent to the appointment under any applicable bankruptcy, insolvency or similar law of an administrator, receiver or trustee for the Bank for all or substantially all of the assets of the Bank; or

(vi) either (a) the Bank shall liquidate or dissolve or permanently cease to carry on all or substantially all of its business and operations (in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation on terms approved by a resolution of an Extraordinary Meeting of the holders of the Notes) or (b) any one or more Governmental Authorities shall take the effective

control of the Bank through a nationalization or expropriation of all or substantially all of the assets or Capital Stock of the Bank.

If any of the Events of Default described above occurs and is continuing, the holders of not less than 25% in aggregate principal amount of the Notes, by written notice to the Bank, may declare all the Notes then outstanding to be immediately due and payable; *provided* that in the case of the Events of Default described in (iv) and (v) above with respect to the Bank, the Notes shall, without any notice to the Bank or any other act by the Trustee or the Holder of any Note, become immediately due and payable. If an Event of Default described in clause (iii) above has occurred and is continuing with respect to the Notes, such Event of Default will be automatically rescinded and annulled once the default triggering such Event of Default pursuant to clause (iii) is remedied or cured by the Bank or waived by the holders of the relevant Indebtedness. No such rescission and annulment will affect any subsequent Event of Default or impair any right consequent thereto.

Upon any such declaration of acceleration, the principal of the Notes so accelerated and the interest accrued thereon and all other amounts payable with respect to such Notes will become and be immediately due and payable. If the Event of Default or Events of Default giving rise to any such declaration of acceleration are cured following such declaration, such declaration may be rescinded by the holders of such Notes in the manner set forth in the Indenture.

The Trustee shall not be charged with knowledge of any Event of Default with respect to the Notes unless a written notice of such Event of Default shall have been given to an officer of the Trustee with direct responsibility for the administration of the Indenture and the Notes, by the Bank or any holder of Notes.

Meetings, Modification and Waiver

The Bank and the Trustee may, without the vote or consent of any holder of Notes, modify or amend the Indenture or the Notes for the purpose of:

- adding to the covenants of the Bank such further covenants, restrictions, conditions or provisions as are for the benefit of the holders of such Notes;
- surrendering any right or power conferred upon the Bank;
- securing the Notes pursuant to the requirements thereof or otherwise evidencing the succession of another person to the Bank and the assumption by any such successor of the covenants and obligations of the Bank in the Notes and in the Indenture pursuant to any merger, consolidation or sale of assets;
- complying with any requirement of the CNV in order to effect and maintain the qualification of the Indenture;
- making any modification which is of a minor or technical nature or correcting or supplementing any ambiguous, inconsistent or defective provision contained in the Indenture or in such Notes; or
- making any other modification, or granting any waiver or authorization of any breach or proposed breach, of any of the terms and conditions of such Notes or any other provisions of the Indenture in any manner which does not adversely affect the interests of the holders of the Notes in any material respect.

Modifications to and amendments of the Indenture and the Notes may be made, and future compliance or past default by the Bank may be waived, by the Bank and the Trustee by the adoption of a resolution at a meeting of holders of a Note as set forth below, but no such modification or amendment and no such waiver may, without the unanimous consent of the holders of all Notes adversely affected thereby, (i) change the scheduled due date for the payment of principal of, premium, if any, or any interest on any such Note, (ii) reduce the principal amount of, the portion of such principal amount which is payable upon acceleration of the maturity of, the stated interest rate on or the premium payable upon redemption of any such Note, (iii) reduce the obligation of the Bank to pay Additional Amounts on any such Note, (iv) shorten the period during which the Bank is not permitted to redeem any such Note, (v) change the Specified Currency in which or the required places at which any such Note or the premium or interest thereon is payable, (vi) change the governing law under which the Indenture and the Notes are governed, (vii) reduce the percentage of the aggregate principal amount of such Notes necessary to modify, amend or supplement the Indenture or such Notes, or for waiver of compliance with certain provisions thereof or for waiver of certain

defaults or (viii) reduce the percentage of aggregate principal amount of outstanding Notes required for the adoption of a resolution or the quorum required at any meeting of holders of such Notes at which a resolution is adopted.

The Indenture contains provisions for convening meetings of holders of Notes to consider matters affecting their interests. A meeting of the holders of Notes may be called by the Trustee or the Bank upon the request of the holders of at least 5.0% in aggregate principal amount of the outstanding Notes, or by the Bank at its discretion, pursuant to the Negotiable Obligations Law. The meetings will be held in the City of Buenos Aires; *provided* that the Bank or the Trustee may determine to hold any such meetings in New York City and/or London. In any case, meetings shall be held at such time and at such place in any such city as the Bank or the Trustee shall determine. Any resolution passed at a meeting convened in London or New York City shall be binding on all Holders of Notes (whether present or not at such meeting), only upon ratification by a meeting of such Holders held in the City of Buenos Aires in accordance with the Negotiable Obligations Law. The Indenture contains provisions for Holders present or represented at meetings of Holders convened in London or New York City to appoint representatives at meetings of Holders in the City of Buenos Aires. Subject as aforesaid, any resolution duly passed will be binding on all Holders of Notes (whether or not they were present at the meeting at which such resolution was passed).

Any such meeting will be held in accordance with the Negotiable Obligations Law in the City of Buenos Aires. If a meeting is held pursuant to the written request of holders of Notes, such meeting shall be convened within 40 days from the date such written request is received by the Bank. Notice of any meeting of holders of Notes (which shall include the date, place and time of the meeting, the agenda therefor and the requirements for attendance) shall be given not less than 10 nor more than 45 days prior to the date fixed for the meeting as set forth under "Notices" below and shall be published not less than five consecutive Business Days nor more than 30 days prior to the date fixed for the meeting in the *Boletín Oficial* (Official Gazette of Argentina) and in another widely circulated newspaper in Argentina.

Any holder of a Note may attend a meeting in person or by proxy. Amendments or supplements to the Indenture or to the Notes or waivers of any provision thereof approved at a meeting may only be approved at an extraordinary meeting. The quorum at any meeting called to adopt a resolution will be persons holding or representing a majority in aggregate principal amount of the outstanding Notes and at any reconvened adjourned meetings will be the person(s) present at such reconvened adjourned meeting. At a meeting or a reconvened adjourned meeting duly convened and at which a quorum is present, any resolution to modify or amend, or to waive compliance with, any provision of the Notes (other than the provisions referred to in the fourth preceding paragraph) shall be validly passed and decided if approved by the persons entitled to vote a majority in aggregate principal amount of the Notes then outstanding represented and voting at the meeting. Any instrument given by or on behalf of any holder of a Note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Note. Any modifications, amendments or waivers to the Indenture or to the Notes shall be conclusive and binding upon all holders of Notes whether or not they have given such consent or were present at any meeting, and on all Notes of such series.

The Trustee will designate the record date for determining the holders of Notes entitled to vote at any meeting and will provide notice to holders of Notes in the manner set forth in the Indenture. The holder of a Note may, at any meeting of holders of Notes at which such holder is entitled to vote, cast one vote for each U.S. dollar in principal amount of the Notes.

For purposes of the above, any Note authenticated and delivered pursuant to the Indenture will, as of any date of determination, be deemed to be "outstanding," except:

- Notes canceled by the Trustee or delivered to the Trustee for cancellation;
- Notes that have been called for redemption in accordance with their terms or which have become due and payable at maturity or otherwise and with respect to which monies sufficient to pay the principal thereof and any premium, interest, Additional Amounts or other amount thereon shall have been deposited with the Trustee; or
- Notes in lieu of or in substitution for which other Notes shall have been authenticated and delivered pursuant to the Indenture;

provided that in determining whether the holders of the requisite principal amount of outstanding Notes are present at a meeting of holders of Notes for quorum purposes or have consented to or voted in favor of any notice, consent,

waiver, amendment, modification or supplement under the Indenture, Notes owned directly or indirectly by the Bank or any of its Affiliates, including any Subsidiary, shall be disregarded and deemed not to be outstanding.

Promptly after the execution by the Bank and the Trustee of any supplement or amendment to the Indenture, the Bank shall give notice thereof to the holders of the Notes and, if applicable, to the CNV, setting forth in general terms the substance of such supplement or amendment. If the Bank shall fail to give such notice to the holders of the Notes within 15 days after the execution of such supplement or amendment, the Trustee may give notice to the holders at the expense of the Bank. Any failure of the Bank or the Trustee to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplement or amendment.

Enforcement by Holders of Notes

No holder of Notes shall have any right by virtue of or by availing itself of any provision of the Indenture or such Note to institute any suit, action or proceeding in equity or at law upon or under or with respect to the Indenture or the Notes or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless (i) such holder previously shall have given to the Trustee written notice of a default with respect to the Notes, (ii) holders of not less than 25% in aggregate principal amount of the Notes shall have made a written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee under the Indenture and shall have offered the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby and (iii) the Trustee for 60 days after receipt of such notice, request and offer of indemnity, shall have failed to institute any such action, suit or proceeding and no direction inconsistent with such written request shall have been given to the Trustee pursuant to the Indenture.

Defeasance

The Bank may at any time terminate all of its obligations with respect to the Notes (“defeasance”), except for certain obligations, including those regarding any trust established for a defeasance and obligations to register the transfer or exchange of the Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain agencies in respect of Notes. The Bank may at any time terminate its obligations under certain covenants set forth in the indenture, and any omission to comply with such obligations will not constitute a Default or an Event of Default with respect to the Notes issued under the indenture (“covenant defeasance”). In order to exercise either defeasance or covenant defeasance, the Bank must irrevocably deposit in trust, for the benefit of the holders of the Notes, with the trustee money or U.S. government obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants expressed in a written certificate delivered to the trustee, without consideration of any reinvestment, to pay the principal of, the premium, if any, and interest on the Notes to redemption or maturity and comply with certain other conditions, including the delivery of opinions of counsel as to certain tax matters.

Replacement of Notes

Notes that become mutilated, destroyed, stolen or lost will be replaced upon delivery thereof to the Trustee, or delivery to the Bank and the Trustee of evidence of the loss, theft or destruction thereof satisfactory to the Bank and the Trustee. In the case of a lost, stolen or destroyed Note, an indemnity satisfactory to the Trustee and the Bank will be required at the expense of the holder of such Note before a replacement Note will be issued. Upon the issuance of any new Note, the Bank may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and the expenses of the Trustee, its counsel and its agents) connected therewith.

Repayment of Monies; Prescription

Any monies deposited with or paid to the Trustee or any Paying Agent for the payment of the principal of or interest or any other amounts payable on or in respect of any Note (including Additional Amounts) and not applied but remaining unclaimed for five years for principal or any other amount and two years for interest after the date upon which such principal or interest or other amounts have become due and payable will, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property law, be repaid to the Bank by the Trustee or such Paying Agent, and the holder of such Note shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property laws, thereafter look only to the Bank for any payment that such holder may be entitled to collect, and all liability of the Trustee or any Paying Agent with respect to such monies will thereupon cease. All claims against the Bank for payment of principal of or interest or any other amounts payable on or in respect of any Note (including Additional Amounts) shall be prescribed

unless such claims are made within five years for principal or any other amount and two years of interest from the date on which such payment first became due.

Notices

Notices to holders of Notes will be deemed to be validly given: (i) if sent by first class mail to them (or, in the case of joint holders, to the first-named in the Register) at their respective addresses as recorded in the Register, and will be deemed to have been validly given on the fourth Business Day after the date of such mailing, (ii) for as long as such Notes are listed on the BYMA, upon publication in Official Gazette (*Boletín Diario*) of the BCBA, for account and order of BYMA in accordance with the delegation of capacities set forth in Resolution No. 18,629 of the CNV, and (iii) for as long as such Notes are listed on the Euro MTF Market, upon publication in a leading daily newspaper of general circulation in Luxembourg. It is expected that notices in Luxembourg will be published in the *Luxemburger Wort*. If publication is impossible or impracticable in Luxembourg, then publication may, in lieu of publication in Luxembourg, be made in any English language newspaper having general circulation in Europe and on the official website of the Luxembourg Stock Exchange (<https://www.bourse.lu/home>). Any such notice will be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the last date on which publication is required and made as so required. In the case of Global Notes, notices shall be sent to DTC or its nominee (or any successor thereto), as the holder thereof, and DTC or its nominee will communicate such notices to its participants in accordance with its standard procedures.

In addition, the Bank shall be required to cause all such other publications of such notices as may be required from time to time by applicable Argentine law. Neither the failure to give notice nor any defect in any notice given to any particular holder of a Note shall affect the sufficiency of any notice with respect to any other Notes.

Judgment Currency Indemnity

If a judgment or order given or made by any court for the payment of any amount in respect of any Note is expressed in a currency (the “judgment currency”) other than the currency (the “denomination currency”) in which such Notes are denominated or in which such amount is payable, the Bank will indemnify the relevant holder against any deficiency arising or resulting from any variation in rates of exchange between the date as of which the amount in the denomination currency is notionally converted into the amount in the judgment currency for the purposes of such judgment or order and the date of actual payment thereof. This indemnity will constitute a separate and independent obligation from the other obligations contained in the terms and conditions of the Notes, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due in respect of the relevant Note or under any such judgment or order.

The Bank agrees that, notwithstanding any restriction or prohibition on access to the foreign exchange market (*Mercado Único y Libre de Cambios*) in Argentina, any and all payments to be made under the Notes and the Indenture will be made in U.S. dollars. Nothing in the Notes and the Indenture shall impair any of the rights of the holders of the Notes or the Trustee or justify the Bank in refusing to make payments under the Notes and the Indenture in U.S. dollars for any reason whatsoever, including, without limitation, any of the following: (i) the purchase of U.S. dollars in Argentina becoming more onerous or burdensome for the Bank than as of the date hereof and (ii) the exchange rate in force in Argentina increasing significantly from that in effect as of the date hereof. To the extent permitted by law, the Bank waives the right to invoke any defense of payment impossibility (including any defense under Section 1091 of the Argentine Civil Code), impossibility of paying in U.S. dollars (assuming liability for any force majeure or act of God and including any defense under Section 765 of the Argentine Civil Code), or similar defenses or principles (including, without limitation, equity or sharing of efforts principles).

Governing Law, Judgments, Jurisdiction, Service of Process, Waiver of Immunities

The Indenture and the Notes are governed by, and will be construed in accordance with, the law of the State of New York; *provided* that all matters relating to the due authorization, execution, issuance and delivery of the Notes by the Bank, and matters relating to the legal requirements necessary in order for the Notes to qualify as “negotiable obligations” under Argentine law, shall be governed by the Argentine Negotiable Obligations Law, as amended, together with Argentine Companies Law, as amended and other applicable Argentine laws and regulations.

The Bank shall irrevocably submit to the jurisdiction of any state or federal court sitting in the Borough of Manhattan, City and State of New York, any Argentine court sitting in the City of Buenos Aires and any competent court in the place of its corporate domicile for purposes of any action or proceeding arising out of or related to the Indenture or the Notes. The Bank shall irrevocably waive, to the fullest extent permitted by law, any objection which the Bank may have to the laying of the venue of any such action or proceeding brought in such a court and any claim that any such action or proceeding brought in such a court has been brought in an inconvenient forum. The Bank has also agreed that final judgment in any such action or proceeding brought in such court shall be conclusive and binding upon the Bank and may be enforced in any court to the jurisdiction of which the Bank is subject by a suit upon such judgment; *provided* that service of process is effected upon the Bank in the manner specified in the following paragraph or as otherwise permitted by law.

As long as any Note remains outstanding, the Bank will at all times have an authorized agent in the Borough of Manhattan in the City and State of New York upon whom process may be served in any legal action or proceeding arising out of or relating to the Notes or the Indenture. Service of process upon such agent and written notice of such service mailed or delivered to the party being joined in such action or proceeding shall, to the extent permitted by law, be deemed in every respect effective service of process upon such party in any such legal action or proceeding. The Bank has appointed CT Corporation System, 111 Eighth Avenue, New York, New York, 10011 as our agent for service of process in any proceedings in the Borough of Manhattan, City and State of New York.

In addition, pursuant to the Indenture, the Bank has acknowledged that the activities contemplated by the Indenture are commercial in nature and has irrevocably waived to the extent permitted by applicable law any right of immunity or claim thereto that may now or hereafter exist.

Trustee

The Notes shall be issued in accordance with the Indenture. Deutsche Bank Trust Company Americas has been appointed as the Trustee under the Indenture. The Indenture contains provisions relating to the duties and responsibilities of the Trustee and its obligations to the holders of the Notes.

The Trustee may resign at any time and the holders of a majority in aggregate principal amount of the Notes may remove the Trustee at any time. The Bank may remove the Trustee if the Trustee becomes ineligible to serve as Trustee under the terms of the Indenture, becomes incapable of acting as Trustee, or is adjudged insolvent or bankrupt. If the Trustee resigns or is removed, a successor Trustee will be appointed in accordance with the terms of the Indenture. The Bank will give notice of any resignation, termination or appointment of the Trustee to the holders of the Notes and to the CNV.

In the Indenture, the Bank covenants to indemnify and defend the Trustee for, and to hold it harmless against, any loss, liability or expense (including the reasonable costs and expenses of its counsel) arising out of or in connection with the acceptance or administration of the Indenture or the trusts thereunder and the performance of its duties thereunder, except to the extent such loss, liability or expense is due to its own gross negligence or willful misconduct.

The Indenture provides that the Trustee or any affiliate or agent of the Trustee may become the owner or pledgee of securities with the same rights it would have if it were not the Trustee or any agent of the Trustee and may otherwise deal with the Bank and receive, collect, hold and retain collections from the Bank with the same rights it would have if it were not the Trustee or an affiliate or agent. The Trustee and its affiliates and agents are entitled to enter into business transactions with the Bank or any of our affiliates without accounting for any profit resulting from such transactions.

Paying Agents; Calculation Agents; Transfer Agents; Registrars

The paying agents, calculation agents, transfer agents and registrars appointed by the Bank are listed at the back of this Pricing Supplement. The Bank may at any time appoint additional or other paying agents, calculation agents, transfer agents and registrars and terminate the appointment thereof; *provided* that (i) while Notes are outstanding, the Bank will maintain a paying agent, a calculation agent, a transfer agent and a registrar in New York City; (ii) as long as the Notes are listed on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, at least one paying agent and transfer agent will be located in Luxembourg; and (iii) as long as it is required by Argentine law or by the CNV, the Bank will maintain a co-registrar, a paying agent and a transfer agent in the City of Buenos Aires. In the event required by the Indenture, notice of any resignation, termination or appointment of any registrar, paying agent or transfer agent, and of any change in the office through which any

registrar, paying agent or transfer agent will act, will be promptly given to the holders of the Notes in the manner described under “Notices” above and to the CNV.

The Trustee, the Paying Agents, the Calculation Agents, the Transfer Agents and the Registrars make no representation regarding this Pricing Supplement, any or the matters contained herein.

UNITED STATES FEDERAL INCOME TAXATION

Prospective investors should refer to the section “Taxation — United States Federal Income Taxation” in the Offering Memorandum for a discussion of certain United States federal income tax consequences to a United States Holder (as defined therein) of the purchase, ownership and disposition of the Notes. This section supplements such discussion and, in the event of any inconsistency, you should rely on the information in this section.

Because the Notes are denominated in a currency other than the U.S. dollar, the Notes are subject to special rules under Section 988 of the Internal Revenue Code and the United States Treasury regulations thereunder (the “Section 988 regulations”). The Section 988 regulations do not directly address instruments such as the Notes and, thus, the proper application of the Section 988 regulations to the Notes is unclear. For purposes of applying the Section 988 regulations to the Notes, we believe that it is reasonable to treat the relevant exchange rates that we use to translate the issue price of, and payments on, a Note into U.S. dollars as the relevant exchange rates for determining income, gain or loss with respect to payments on, or the proceeds from the disposition of, the Notes. It is possible, however, that the Internal Revenue Service could require a U.S. Holder to calculate income, gain or loss on the Notes using exchange rates in effect on the date the Notes are issued or on a relevant payment date, as the case may be. If such rates were to apply, it is possible that the character, amount, source and timing of income, gain or loss on the Notes could differ from what is described in the section “Taxation — United States Federal Income Taxation” in the Offering Memorandum. You should consult your own tax advisors regarding the proper application of the Section 988 regulations to the Notes.

PLACEMENT EFFORTS AND ALLOCATION PROCESS

Placement Efforts

We, the Initial Purchasers (directly or through any of their affiliates), and in Argentina, the Argentine Placement Agents plan to undertake a series of marketing and placement efforts to place the Notes offered hereby in an *oferta pública* under the Argentine Negotiable Obligations Law, the Capital Markets Law and the CNV Rules. Accordingly, we and the Argentine Placement Agents will offer the Notes to the public in Argentina and we, and the Initial Purchasers will offer the Notes outside Argentina to a broad group of investors in accordance with the applicable laws of the jurisdictions in which the Notes are offered (all such investors are referred to herein as “potential investors”). The Initial Purchasers will not offer Notes in Argentina.

The placement efforts may consist of a variety of marketing methods that have proven successful in past transactions, which we expect may include, among others, the following:

- a road show in which potential investors will be invited to participate;
- a global conference call where potential investors, including Argentine investors that may not have participated in the road show meetings, with the opportunity to ask questions of our management;
- our management will also be available to potential investors, both in Argentina and in other countries outside Argentina, via:
 - (i) one-on-one conference calls;
 - (ii) one-on-one meetings; and
 - (iii) group meetings;
- an “electronic road show,” an audio/visual presentation through the Internet which allows potential investors unable to attend the road show meetings and global conference call referred to above to have access to our road show presentation;
- distribution (in hard copy and/or electronically) of the Offering Memorandum and the Pricing Supplement, as the case may be, relating to the Notes and the Global Note Program, in the Spanish language in Argentina and in substantially similar offering documents in English in countries outside of Argentina;
- making available to potential Argentine investors, upon request, at our offices copies of the Offering Memorandum and the Pricing Supplement, and designating a contact person to respond to investor inquiries; and
- complying with the local communication and publication requirements of the CNV for a public offering in Argentina (including, without limitation, publications in Argentine newspapers of general circulation and in the Official Gazette (*Boletín Diario*) of the BCBA, for account and order of BYMA in accordance with the delegation of capacities set forth in Resolution No. 18,629 of the CNV.

Global Offer

Pursuant to this Pricing Supplement, we will offer Ps.6,300,000,000 of Notes at the subscription price to be determined pursuant to the proceedings described herein.

The offer of the Notes shall comprise: (i) an offer to the public in Argentina (the “Local Offer”), which will be made through the Argentine Placement Agents; and (ii) an offer outside Argentina through the Initial Purchases, (x) within the United States or to any U.S. persons, only to QIBs within the meaning of Rule 144A, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, and (y) outside the United States to non-U.S. persons, only in compliance with Regulation S (the “International Offer” and, together with the Local Offer, the “Global Offer” and, each of the offers individually, an “Offer”), in each case, in accordance with Capital Markets Law and other applicable norms.

Initial Placement of the Notes

The placement of the Notes in Argentina will be made by means of any of the mechanisms provided by Chapter IV, Title VI of the CNV Rules, under which an issuer of notes may decide between (i) a book-building mechanism (the “book building”) or (ii) a public auction (*subasta pública*). The placement of the Notes will be conducted by means of a book building process.

The potential investors shall submit purchase orders reflecting: (i) the name of the agent that placed the order, and whether it was for its own account or for the account of a customer, (ii) the amount thereof of Notes required, which shall be in minimum denominations of Ps.1,000,000 or multiples of Ps.1,000 in excess thereof, (iii) the margin required, and (iv) any other requirement necessary to comply with the applicable law.

The Initial Purchasers and the Argentine Placement Agents will keep record of the purchase orders received in a registry (the “Registry”) managed by the Joint Book-running Managers in the city of New York, according to the Article 1, Section I of Chapter IV, Title VI, of the CNV Rules.

We submitted an affidavit to the CNV requesting to be categorized as a “frequent issuer,” in accordance with Article 11, Section III of Chapter IV of the CNV Rules, as we fulfill the two criteria required: a) we are an issuer of notes publicly offered in Argentina; and b) we have issued and publicly offered in Argentina, in the twelve months preceding the start of the offering of the Notes, at least two series of notes and/or shares authorized by the CNV. The CNV accepted our request and granted us the option to shorten the offering period of the Notes to one Business Day.

Offer and Allocation Process

Offer Process

In Argentina, the Argentine Placement Agents shall deliver the purchase orders received to the Joint Book-Running Managers. The Argentine Placement Agents can require potential investors to guarantee the payment of their offers, subject to CNV Rules. Outside of Argentina, purchase orders must be submitted to the Joint Book-Running Managers.

The purchase orders shall be submitted to the Argentine Placement Agents or the Initial Purchasers, starting on the date indicated on the notice of subscription (the “Notice of Subscription”) at the beginning of the offer period (the “Offer Period”) until the end of the Offer Period. The Notice of Subscription will be published on the CNV’s website, on the MAE’S web site, in the electronic bulletin (*Boletín Electrónico*) of the MAE, in our website and, for one business day, in the Official Gazette (*Boletín Diario*) of the BCBA, for account and order of BYMA in accordance with the delegation of capacities set forth in Resolution No. 18,629 of the CNV. Potential investors will have until 13:00 (Buenos Aires local time) on the last day of the Offer Period (the “Allocation Date”) to submit purchase orders before the Argentine Placement Agents or the Initial Purchasers (the “Offer Period”, and the date and time limit of the Offer Period, the “Limit Date for Purchase Orders Submissions”). After the Limit Date for Purchase Orders Submissions, the Argentine Placements Agents and the Initial Purchasers will not accept more purchase orders.

Between 1:00 pm and 6:00 pm (Buenos Aires local time) on the Allocation Date, the Initial Purchasers will include in the Registry all of the purchase orders already submitted as of the Limit Date for Purchase Orders Submissions. Then the Joint Bookrunning Managers will close the Registry (the “Registry Closing Date”). Pursuant to the Article 7, Section I of the Chapter IV, Title VI, of the CNV Rules and potential investors will be able to waive their right to expressly ratify the purchase orders. Subsequently, all of the purchase orders not withdrawn or amended as of the Registry Closing Date will be deemed to be firm, binding and definitive offers from that date, without need of ongoing actions by potential investors.

Allocation

On the Allocation Date, and after the close of the Registry, we, the Initial Purchasers and the Argentine Placement Agents will determine the applicable Interest Rate and Margin.

Additionally, this information shall be disclosed by publishing a notice of results (the “Notice of Results”) in the CNV’S website, on the MAE’s web site, in the electronic bulletin (*Boletín Electrónico*) of the MAE, in our website and, for one business day, in the Official Gazette (*Boletín Diario*) of the BCBA, for account and order of BYMA in accordance with the delegation of capacities set forth in Resolution No. 18,629 of the CNV. The Notice

of Results will include the total amount offered, the final amount placed, the amount to be issued, the applicable Interest Rate, the Margin and the Applicable Exchange Rate.

Amendment, Suspension and/or Extension. Offer Deserted. Refusal of Purchase Orders.

The Offer Period may be amended, suspended or extended before the expiration of its original term, through a notice published in the CNV's website, on the MAE's web site, in the electronic bulletin (*Boletín Electrónico*) of the MAE, in our website and, for one business day, in the Official Gazette (*Boletín Diario*) of the BCBA, for account and order of BYMA in accordance with the delegation of capacities set forth in Resolution No. 18,629 of the CNV. The amendment, suspension and/or extension of the Offer Period and/or the Allocation Date will not result in any responsibility to us, the Argentine Placement Agents and the Initial Purchasers and will not grant compensation or indemnification rights to the potential investors that have submitted their purchase orders. If, after the Allocation Date, we decide not to issue the Notes, each and all of the submitted purchase orders will be deemed automatically null and void.

In case the Offer Period is suspended or extended, the potential investors that submitted purchase orders during such period will be able to withdraw their purchase orders at any moment during the suspension or extension period, or during the new Offer Period, as extended.

The purchase orders may not be refused, except in case of mistakes and/or omissions in the information contained therein that causes their review to be burdensome and/or impossible.

The potential investors could be required to provide all information that might be required by the Argentine Placement Agents or the Initial Purchasers, in order to comply with the applicable law. If the information mentioned above is (i) insufficient, incomplete and/or (ii) not provided in the required time and form, the Argentine Placement Agents or the Initial Purchasers may refuse those purchase orders, without any ongoing responsibility.

We and/or Argentine Placement Agents and/or the Initial Purchasers reserve our right to refuse any of the purchase orders if we consider that any of them do not comply with applicable law, including, without limitation, any applicable anti-money laundering regulations.

ANY AMENDMENTS TO THESE RULES SHALL BE ANNOUNCED THROUGH A NOTICE ON THE CNV'S WEBSITE, ON THE MAE'S WEB SITE, IN THE ELECTRONIC BULLETIN (BOLETÍN ELECTRÓNICO) OF THE MAE, IN OUR WEBSITE AND, FOR ONE BUSINESS DAY, IN THE OFFICIAL GAZETTE (BOLETÍN DIARIO) OF THE BCBA, FOR ACCOUNT AND ORDER OF BYMA IN ACCORDANCE WITH THE DELEGATION OF CAPACITIES SET FORTH IN RESOLUTION NO. 18,629 OF THE CNV.

We may terminate the placement of the Notes during or immediately after the termination of the Offer Period, if (i) the Argentine Placement Agents or the Initial Purchasers have not received purchase orders or all of them have been rejected; (ii) the potential investors demanded a higher price than the price estimated by us; (iii) the amount of purchase orders represents a nominal value of the Notes that, after being reasonably considered, does not justify the issue of the Notes; (iv) considering the economic result, the issue of the Notes would not be desirable for us; (v) material adverse changes have affected the local and/or international financial market, the local and/or international capital markets and/or our or Argentina's economic situation, as a result of which, it would not be advisable to issue the Notes; or (vi) the potential investors have not complied with applicable anti-money laundering and terrorism financing regulation. Additionally, the placement of the Notes may be deemed null and void pursuant to the terms and conditions of the purchase agreement.

Allocation Process

Potential investors whose purchase orders admitted to the Registry indicate a margin less than or equal to the Margin accepted by us, may receive the Notes requested subject to the applicable laws and allocation decided by us in conjunction with the Initial Purchasers on the basis of the parameters provided below.

We intend to place the Notes primary among international and Argentine institutional investors, including, without limitation, investment funds, pension funds, insurance companies, financial entities and private bank managers. We will give priority to those purchase orders received from investors who generally keep these type of instruments in their long-term portfolios, who benefit the price of the Notes in the secondary market by being a stable base of investors, with capacity to understand the credit risk of the interested in maintaining long-term positions, and thus allowing the creation of a reference to our debt and the facilitation of future access to

international capital markets. As such, priority will be given to purchase orders received from regulated institutional investors or international financial institutions.

Our criteria to allocate the Notes among investors will be based on, among others, an investor's background relating to international transactions that include issuers in emerging markets, the purchase orders amount, the competitiveness of the Margin during the Offer Period, the interest of the investors regarding our credit profile and the credit quality of the investor.

The allocations will be placed on the same terms and conditions to all investors.

We cannot assure investors that their purchase orders will be allocated or, if that happens, that those will be allocated at the full amount of Notes requested or that the percentage of allocation between two purchase orders with the same characteristics will be the same.

No potential investors who have submitted a purchase order with a margin that is higher than the Margin will receive Notes.

Neither we, nor the Initial Purchasers and the Argentine Placement Agents have any obligation to inform any investor whose purchase orders have been totally or partially excluded that such expressions of interest have been excluded totally or partially.

Settlement Process

Regarding the Notes allocated in Argentina, investors who receive Notes shall pay the subscription price (the "Subscription Price") according to the terms of the allocation through the Argentine Placement Agents. The Subscription Price shall be paid in U.S. dollars in the account indicated by the Argentine Placement Agents, located outside Argentina, on the terms included in the purchase orders. The Initial Purchasers will pay the Subscription Price according to the terms of the purchase agreement. The Argentine Placement Agents could purchase totally or partially allocated, but unpaid Notes, without need of any consent from the potential investor, or could cancel such allocation. If the potential investor does not pay the Subscription Price in whole or in part, at the latest at 11:00 (Buenos Aires local time) on the Issue Date, its right to receive the Notes will be automatically revoked.

The Issue Date will take place within the third Business Day following the Allocation Date and will be reported by the publication of the Results Notice.

Once the payment of the full Subscription Price is completed, the international billing and delivery agent, in its capacity as settlement agent abroad as participant in DTC, Euroclear and Clearstream, will transfer the Notes allocated in Argentina to a DTC account held in the name of *Caja de Valores S.A.* Subsequently, *Caja de Valores S.A.* will transfer the allocated Notes to the account of the Local Settlement Agent. Once the instruments have been credited, the Local Settlement Agent shall transfer those instruments to the investors who would have submitted purchase order through it, to the account held in the *Caja de Valores S.A.*, indicated by those investors in the purchase orders.

WE, THE ARGENTINE PLACEMENT AGENTS AND THE INITIAL PURCHASERS RESERVE THE RIGHT TO REFUSE AND CONSIDER NOT PAID ALL THE ALLOCATED PURCHASE ORDERS THAT INVESTORS WOULD HAVE SUBMITTED THROUGH THE ARGENTINE PLACEMENT AGENTS IF SUCH PURCHASE ORDERS HAVE NOT BEEN PAID UNDER THE TERMS AND PURSUANT TO THE PROCESSES DESCRIBED HEREIN. IN SUCH INSTANCE, THE REFUSALS WILL NOT GRANT ANY RIGHT TO ANY CLAIM AGAINST US, THE ARGENTINE PLACEMENT AGENTS OR THE INITIAL PURCHASERS.

SUBSCRIPTION AND SALE

Subject to the terms and conditions set forth in the purchase agreement dated November 1, 2017, among us and the Initial Purchasers, each of the Initial Purchasers has agreed, severally and not jointly to purchase from us, the principal amount of Notes set forth opposite its name below:

<u>Initial Purchaser</u>	<u>Principal Amount of Notes</u>
Credit Suisse Securities (USA) LLC	Ps. 2,520,000,000
J.P. Morgan Securities plc	Ps. 2,520,000,000
BCP Securities, LLC	Ps. 1,260,000,000
Total.....	Ps. 6,300,000,000

Subject to the terms and conditions set forth in the purchase agreement, the Initial Purchasers have agreed, severally and not jointly, to purchase all of the Notes sold under the purchase agreement if any of these Notes are purchased. If an Initial Purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

Commissions and Discounts

The representatives have advised us that the Initial Purchasers propose initially to offer the Notes at the offering price set forth on the cover page of this Pricing Supplement. After the initial offering, the offering price or any other term of the offering may be changed. The Initial Purchasers may offer and sell Notes through certain of their affiliates.

Notes Are Not Being Registered

The Notes have not been registered under the Securities Act or any state securities laws. The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. The Initial Purchasers will not offer or sell the Notes except to persons they reasonably believe to be qualified institutional buyers or pursuant to offers and sales to non-U.S. persons that occur outside of the United States within the meaning of Regulation S. In addition, until 40 days following the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act. Each purchaser of Notes will be deemed to have made acknowledgments, representations and agreements as described under “Transfer Restrictions” in the Offering Memorandum.

The Notes will be a new issue of securities with no established trading market. Application will be made to list the Notes on the Luxembourg Stock Exchange and to admit the Notes for trading on the Euro MTF Market. Application has also been made to list and admit the Notes for trading on the BYMA and on the MAE. We have been advised by the Initial Purchasers that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without notice. We cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors. Moreover, the Initial Purchasers have informed us that they might not undertake any market-making activity with respect to the Notes until expiration of the confirmation period in Argentina.

Settlement

Delivery of the Notes have been made to investors on November 7, 2017.

We have agreed that we will not, for a period of 60 days after the date of this Pricing Supplement, without the written consent of Credit Suisse Securities (USA) LLC, J.P. Morgan Securities plc and BCP Securities LLC, which may not be unreasonably withheld, conditioned or delayed, issue or sell, or offer to contract or grant any

option to issue or sell, any of our long-term debt securities, in each case in the international capital markets, except for the Notes sold to the Initial Purchasers pursuant to the purchase agreement.

Short Positions

In connection with the offering, the Initial Purchasers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Initial Purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The Initial Purchasers must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the Initial Purchasers' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor any of the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor any of the Initial Purchasers make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

European Economic Area

In relation to each member state of the European Economic Area, no offer of Notes which are the subject of the offering has been, or will be made to the public in that Member State, other than under the following exemptions under the Prospectus Directive:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Initial Purchasers for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall result in a requirement for the Bank or any Representative to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

This Pricing Supplement has been prepared on the basis that any offer of Notes in any Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Member State of Notes which are the subject of the offering contemplated in this Pricing Supplement may only do so in circumstances in which no obligation arises for the Bank or any of the Representatives to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither the Bank nor the Representatives have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Bank or the Representatives to publish a prospectus for such offer.

For the purposes of this provision, the expression "an offer of Notes to the public" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive that Relevant Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (as amended) and includes any relevant implementing measure each Member State.

The above selling restriction is in addition to any other selling restrictions set out below.

Notice to Prospective Investors in the United Kingdom

Each Initial Purchaser has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of

Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Republic of Argentina

The Notes may be offered directly to the public in Argentina only through the Argentine Placement Agents, who is authorized under the laws and regulations of Argentina to offer or sell securities to the public in Argentina. The offering of the Notes in Argentina will be made by a substantially similar Pricing Supplement and Offering Memorandum in the Spanish language and in accordance with CNV Rules.

Notice to Canadian Investors

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Pricing Supplement (including any amendment hereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 *Underwriting Conflicts* (NI 33-105), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Relationship with the Initial Purchasers

Some of the Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. If any of the Initial Purchasers or their respective affiliates has a lending relationship with us, certain of those Initial Purchasers or their respective affiliates routinely hedge, and certain other of those Initial Purchasers or their respective affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these Initial Purchasers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Initial Purchasers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Address of the Initial Purchasers

The address of Credit Suisse Securities (USA) LLC is 11 Madison Avenue, New York, New York 10010, the address of J.P. Morgan Securities plc is 25 Bank Street, Canary Wharf, London, England E14 5JP, and the address of BCP Securities, LLC is 289 Greenwich Avenue, Greenwich, Connecticut 06830.

ISSUER

Banco Hipotecario S.A.
Reconquista 151
(C1003ABC), Ciudad Autónoma de Buenos Aires
Argentina

TRUSTEE, CO-REGISTRAR, PAYING AGENT, CALCULATION AGENT AND TRANSFER AGENT

Deutsche Bank Trust Company Americas
60 Wall Street, 16th Floor
New York, New York 10005
United States of America

REGISTRAR, LOCAL PAYING AGENT, LOCAL TRANSFER AGENT AND REPRESENTATIVE OF THE TRUSTEE IN ARGENTINA

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Offering Memorandum



Banco Hipotecario S.A.

US\$1,500,000,000

Global Note Program

Under our US\$1,500,000,000 Global Note Program, which we refer to as the “Program,” we may from time to time issue notes (the “Notes”) denominated in any currency as may be set forth in a pricing supplement to this offering memorandum. We may issue Notes with maturities of not less than 30 days and not more than 30 years from the date of issue as may be set forth in the applicable pricing supplement, subject to compliance with applicable legal and regulatory requirements. The maximum principal amount of all Notes we may have outstanding at any time under the Program is limited to US\$1,500,000,000 (or its equivalent in pesos or other currencies).

The Notes issued under the Program may (i) bear a fixed rate of interest, (ii) bear a variable rate of interest or (iii) be issued at a discount and not bear interest. The principal amount, maturity, interest rate and interest payment dates of each series of Notes issued under the Program will be described in a pricing supplement to this offering memorandum related to such series. Specific terms and conditions applicable to the Notes that amend, supplement or otherwise modify the general terms and conditions of the Notes described in this offering memorandum will be described in the pricing supplement applicable to such series.

We may offer the Notes issued under the Program directly or through dealers and agents that we may designate from time to time and in exchange for cash or surrender of other securities. Any such dealers and agents will be set forth in the applicable pricing supplement. This offering memorandum may not be used to consummate sales of Notes issued under the Program unless accompanied by the applicable pricing supplement.

Unless otherwise specified in the applicable pricing supplement, the Notes will be unsecured, unsubordinated obligations of the Bank and will rank at least *pari passu* in right of payment with our other unsecured and unsubordinated indebtedness (other than obligations preferred by statute or operation of law, including deposits).

An investment in the Notes involves significant risks. See “Risk Factors” beginning on page 11 of this offering memorandum for a description of certain material risks related to an investment in the Notes. We also refer you to the applicable pricing supplement relating to any series of Notes which may include additional risks you should consider before making an investment in any Notes.

Notes issued under the Program have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), any state securities laws or the securities laws of any other jurisdiction (other than Argentina). Unless the Notes are registered under the Securities Act, the Notes may be offered only in transactions that are exempt from registration under the Securities Act and the securities laws of other jurisdictions. Accordingly, we will offer and sell Notes only in transactions exempt from registration under the Securities Act to “qualified institutional buyers” (as defined in Rule 144A under the Securities Act, “QIBs”) or “institutional accredited investors” (as defined in Rule 501(a)(1), (2) or (3) under the Securities Act) in reliance on Rule 144A under the Securities Act (“Rule 144A”) or outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act (“Regulation S”). For a description of certain restrictions on resale and transfer of the Notes, see “Subscription and Sale” and “Transfer Restrictions” in this offering memorandum. Each pricing supplement will detail the placement efforts to be undertaken pursuant to the applicable jurisdictions where Notes are offered for sale.

Notes issued under the Program will be listed on one or more markets authorized by the Argentine *Comisión Nacional de Valores* (the “CNV”) in Argentina or abroad, as set forth in the applicable pricing supplement.

The date of this offering memorandum is November 10, 2017.

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IMPORTANT NOTICES

The Notes issued under the Program are excluded from the deposit insurance system established pursuant to Argentine Law No. 24,485, as amended, as well as Law No. 25,089 and Decrees No. 538/95 and 540/95, and will not benefit from the exclusive priority right granted to depositors pursuant to section 49(e) of the Financial Institutions Law No. 21,526, as amended (the “Financial Institutions Law”). The Notes are not secured by any security interest or guaranteed by any other entity or person. Neither Argentina, nor any governmental agency or political subdivision thereof, in any way guarantees or otherwise backs our obligations in respect of the Notes.

The public offering has been authorized by the CNV pursuant to Resolutions No. 16,573, No. 17,805, No. 18,145 and No. 18,493, dated May 24, 2011, September 9, 2015, July 28, 2016 and February 2, 2017, respectively. Such authorizations mean only that the reporting requirements have been satisfied. The CNV has not rendered any opinion in respect of the information contained in this offering memorandum. The accuracy of the accounting, financial, economic and all other information contained in this offering memorandum is the sole responsibility of our board of directors and, to the extent applicable, its Supervisory Committee and the auditors to the extent of their opinions on the financial statements attached hereto and other responsible persons as set forth in sections 119 and 120 of Law No. 26,831 on Capital Markets (as amended and supplemented, including, without limitation, Decree No. 1023/13, the “Capital Markets Law”). Our board of directors hereby represents and warrants that, as of the date hereof, this offering memorandum, together with the applicable pricing supplement as of the date thereof, contains or will contain true and complete information regarding any material fact affecting our equity, results of operations and financial condition, as well as all other information that is required to be furnished to prospective investors in respect of an investment in the Notes in accordance with applicable laws and regulations.

The Notes will constitute non-convertible *obligaciones negociables* under the Argentine Negotiable Obligations Law No. 23,576, as amended by Argentine Law No. 23,962 (the “Negotiable Obligations Law”), issued and placed in accordance with such law, the Capital Markets Law, Law No. 19,550 and its amendments (the “Argentine Companies Law”) and General Resolutions No. 622/2013 and No. 664/2016, as amended, issued by the CNV (the “CNV Rules”) and all other applicable regulations of the CNV, and will have the benefits provided thereby, and will be subject to the procedural requirements set forth therein.

The information provided in this offering memorandum or in any pricing supplement that relates to Argentina and its economy is based, or will be based, upon publicly available information published by the Argentine government and Argentine governmental agencies, and neither we, nor any dealer and/or agent appointed in connection with the issuance of a series of Notes hereunder, make any representation or warranty with respect thereto.

Pursuant to Law No. 24,587 on the Individualization of Private Securities (*Nominatividad de los Títulos Valores Privados*), Argentine companies are not authorized to issue certificated securities in bearer form unless they are authorized by the CNV to be placed by means of a public offering in Argentina and are represented by global or individual securities registered or deposited with common depository systems authorized by the CNV. Therefore, for as long as the provisions of such law are in effect, we will issue only registered, non-endorseable notes (“registered notes”) or notes deposited with a custodian or clearing system, not exchangeable for certificated bearer notes.

Each U.S. person who purchases Notes or receives Notes in exchange offers that bear a restrictive transfer legend will be deemed to (i) represent that such person is purchasing or otherwise receiving the Notes for its own account or for the benefit of an account with respect to which it exercises sole investment discretion and that it or such account is a QIB or an institutional accredited investor (unless the applicable pricing supplement does not provide for sales or transfers to institutional accredited investors) and (ii) acknowledge that the Notes have not been and will not be registered under the Securities Act and cannot be reoffered, resold, pledged or otherwise transferred except (a) in compliance with Rule 144A under the Securities Act to a person whom the seller reasonably believes is a QIB, (b) outside the United States in compliance with Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144A thereunder (if available), and in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Each person that acquires or otherwise obtains Notes sold outside the United States in reliance on Regulation S will be deemed to have represented that it is not purchasing the Notes with a view to the resale, distribution or other disposition thereof to a U.S. person or in the United States. For a description of these and certain further restrictions on offers and sales of the Notes and distribution of this offering memorandum, see “Subscription and Sale” and “Transfer Restrictions”. Additional restrictions on transfer of Notes, if any, will be described in the applicable pricing supplement.

Neither this offering memorandum nor any other information supplied in connection with the Program, including any pricing supplement, should be considered by any recipient hereof a recommendation by us or any dealers or agents to purchase any of the Notes. You are advised to make, and shall be deemed to have made, your own independent investigation of our financial condition and affairs and your own appraisal of our creditworthiness and the legality of your investment. The contents of this offering memorandum and/or the applicable pricing supplement should not be construed as legal, business, financial, tax or other advice. You are advised to consult your own attorney, accountant and business adviser as to legal, tax, business, financial and related matters concerning an investment in our Notes.

The Notes have not been approved or recommended by any United States federal or state securities commission or any United States, Argentine or other regulatory authority of any jurisdiction. Furthermore, the foregoing authorities have not passed upon or endorsed the merits of any offering or confirmed the accuracy or determined the adequacy of this offering memorandum or any pricing supplement. Distribution of this offering memorandum by us and/or any dealer shall not be construed as (i) an offer to buy or sell Notes in a jurisdiction where it is prohibited and/or (ii) a recommendation to invest in the Notes. Any representation to the contrary is a criminal offense in the United States.

Potential investors should rely only on the information contained in this offering memorandum and in any pricing supplement. We have not, and the relevant dealers and agents have not, authorized any other person to provide you with different information. No reliance should be placed on any other or inconsistent information provided by any person. We and the dealers take no responsibility for any information that others may provide you. You should assume that the information contained in this offering memorandum is accurate as of the date on the front cover of this offering memorandum only. Our business, financial condition, results of operations and prospects may have changed since such date. Neither the delivery of this offering memorandum nor the applicable pricing supplement nor any sale made hereunder or thereunder shall imply that the information herein or therein is correct as of any date subsequent to the date on the cover of this offering memorandum and the applicable pricing supplement.

This offering memorandum and/or the applicable pricing supplement does not constitute an offer to sell or a solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer

or solicitation in such jurisdiction, nor does this offering memorandum and/or the applicable pricing supplement constitute an invitation to subscribe for or purchase any Notes. The distribution of this offering memorandum or any part of it, including any pricing supplement, and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Notes or possess or distribute this offering memorandum and/or any pricing supplement and must obtain any consent, approval or permission required for your purchase, offer or sale of the Notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales, and neither us nor any of the dealers will have any responsibility therefor. We and the dealers require persons in possession of this offering memorandum to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this offering memorandum and other offering material relating to the Notes, see “Transfer Restrictions”.

This offering memorandum is intended solely for the purpose of soliciting indications of interest in the Notes from qualified investors and does not purport to summarize all of the terms, conditions, covenants and other provisions relating to the terms of the Notes contained in the applicable indenture or agency agreement, if any, entered into in connection with the issuance of the Notes as described herein and other transaction documents described herein. The market information in this offering memorandum has been obtained by us from publicly available sources deemed by us to be reliable. We accept responsibility for correctly extracting and reproducing such information. Notwithstanding any investigation that the initial purchasers may have conducted with respect to the information contained in this offering memorandum, the initial purchasers accept no liability in relation to the information contained in this offering memorandum or its distribution or with regard to any other information supplied by us or on our behalf.

In this offering memorandum, unless the context otherwise requires, references to the “Bank,” “we,” “our” and “us” are to Banco Hipotecario S.A. and its subsidiaries on a consolidated basis.

ENFORCEMENT OF CIVIL LIABILITIES

We are a corporation (*sociedad anónima*) organized and operating under the laws of Argentina. Substantially all of our assets are located outside the United States. All of our directors and officers and certain advisors named herein reside in Argentina or elsewhere outside the United States, and all, or a substantial portion of, their assets are also located outside of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to force against them or against us judgments predicated upon the civil liability provisions of the U.S. federal securities laws or the laws of such other jurisdictions.

In the terms and conditions of the Notes, we will (i) agree that the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, City and State of New York, will have non-exclusive jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the Notes and, for such purposes, irrevocably submit to the jurisdiction of such courts and (ii) name an agent for service of process in the Borough of Manhattan, New York City. See “Description of the Notes”.

Enforcement of foreign judgments would be recognized and enforced by the courts in Argentina provided that the requirements of Article 517 and 519 of the National Civil and Commercial Procedure Code (*Código Procesal Civil y Comercial de la Nación*) (if enforcement is sought before federal courts) are met, such as:

- the judgment, which must be final in the jurisdiction where rendered, was issued by a court competent in accordance with Argentine principles regarding international jurisdiction and resulted from a personal action, or an *in rem* action with respect to personal property if such was transferred to Argentine territory during or after the prosecution of the foreign action,
- the defendant against whom enforcement of the judgment is sought was personally served with the summons and, in accordance with due process of law, was given an opportunity to defend against foreign action,
- the judgment must be valid in the jurisdiction where rendered and its authenticity must be established in accordance with the requirements of Argentine law,
- the judgment does not violate the principles of public policy of Argentine law, and
- the judgment is not contrary to a prior or simultaneous judgment of an Argentine court.

We have been advised by our Argentine counsel, Zang, Bergel & Viñes Abogados, that there is doubt as to the enforceability, in original actions in Argentine courts, of liabilities predicated solely upon the federal securities laws of the United States and as to the enforceability in Argentine courts of judgments of United States courts obtained in actions against us predicated upon the civil liability provisions of the federal securities laws of the United States.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), principally under the captions “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business”. These forward-looking statements are based largely on our current beliefs, expectations and projections about future events and financial trends affecting or that may affect our business, results of operations and prospects. All statements other than statements of historical facts contained in this offering memorandum and in any related pricing supplement including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “aim,” “forecast,” “foresee,” “understand,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “plan,” “affirm,” “consider” or “continue” or the negative thereof or variations thereon or similar terminology. We do not provide any assurance with respect to such statements. Because such statements are subject to risks and uncertainties, actual results may differ materially and adversely from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially and adversely include but are not limited to:

- changes in general economic, financial, business, political, legal, social or other conditions in Argentina or elsewhere in Latin America or changes in either developed, emerging or frontier markets;
- downturns in the capital markets and changes in capital markets in general that may affect policies or attitudes toward Argentina or Argentine companies or securities issued by Argentine companies, including policies or attitudes relating to lending or investing;
- increased inflation;
- a devaluation or depreciation of the Argentine peso against other currencies, especially the U.S. dollar;
- increases in interest rates and the cost of deposits which may adversely affect financial margins;
- governmental intervention and regulation (including banking, insurance and tax regulation);
- exchange controls, restrictions on transfers abroad and restrictions on capital inflows;
- adverse legal or regulatory disputes or proceedings;
- credit and other risk of lending, such as increases in defaults by borrowers and other delinquencies;
- increase in the allowances for loan losses;
- fluctuations and declines in the value of Argentine public debt;
- decrease in deposits, customers loss and revenue losses;
- competition in the banking, financial services and related industries, and loss of market share;
- increased cost of funding or our inability to obtain debt on attractive terms;
- technological changes, changes in consumer spending and saving habits, and our inability to implement new technologies;
- effects of the global financial markets and economic crisis;
- restrictions on the supply of energy that could adversely affect Argentina’s economy;
- consumer protection laws may limit the validity of some of our rights;
- the impact of actions taken by our competitors and other third parties;
- class actions against financial institutions for undetermined amounts can affect the profitability of the financial system and us in particular;
- the inability to retain certain personnel and the ability to hire additional key personnel;

- changes in the applicable laws and governmental regulations, particularly the Central Bank, the CNV Rules, and any other regulation related to us and our lending and other activities, tax matters and market conditions (including our fiduciary activities); and
- other risk factors discussed under “Risk Factors” beginning on page 11 of this offering memorandum.

You should not place undue reliance on such statements, which speak only as of the date that they were made. These cautionary statements should be considered in connection with any written or oral forward-looking statements that we may issue in the future. We do not undertake any obligation to release publicly any revisions to such forward-looking statements after completion of this offering to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this offering memorandum might not occur. Any such forward-looking statements are not guarantees of future performance. As a result, prospective investors should not make an investment decision based on any forward-looking statements contained in this offering memorandum and/or any pricing supplement.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with resales of Notes that are “restricted securities,” we will furnish, upon the request of a holder of a Note or a prospective purchaser designated by such holder, the information required to be delivered by Rule 144A(d)(4) under the Securities Act unless, at the time of such request, we are either a reporting company under section 13 or section 15(d) of the Exchange Act, or are furnishing to the U.S. Securities and Exchange Commission (the “SEC”) the information required by Rule 12g3-2(b) under the Exchange Act.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Central Bank Accounting Rules

We prepare our financial statements in conformity with the accounting rules established by the Central Bank, which we refer to as “Central Bank Accounting Rules,” through Circular CONAU 1, as supplemented and amended, which differ in certain significant respects from the accounting standards generally accepted and as in effect in Argentina from time to time, which we refer to as “Argentine GAAP,” and from international financial reporting standards, which we refer to as “IFRS”. In the notes to the financial statements, we have identified and quantified the effect on the financial statements derived from the different valuation methods and exposure. Our audited financial statements do not contain any reconciliation to IFRS of our shareholders’ equity or our net income; however, such reconciliation is included in our unaudited financial statements. Potential investors should consult their own professional advisors for an understanding of the differences between our accounting policies and Argentine GAAP and IFRS and how those differences affect the financial information herein. In 2014, the Central Bank issued Communication “A” 5541, which provided a roadmap to converge the existing informational and accounting regime in accordance with the rules of the Central Bank and IFRS. Moreover, in December 2016, the Central Bank issued Communication “A” 6114, which established the criteria that should be taken into consideration by financial institutions in the framework for convergence starting on January 1, 2018. We are currently undertaking a full review of our accounting systems in preparation for our timely adoption of IFRS accounting standards. For further information, see “Summary Financial and Other Information” and Note 3 “Reconciliation of balances to the applicable accounting framework for convergence towards the IFRS” of our Unaudited Financial Statements for the six-month period ended June 30, 2017.

Effective January 1, 1995, pursuant to Resolution No. 388 of the Central Bank’s Superintendency of Financial and Foreign Exchange Institutions (*Superintendencia de Entidades Financieras y Cambiarias*, hereinafter the “Financial Superintendency”), we discontinued our prior practice of adjusting our financial statements for inflation. Effective January 1, 2002, we resumed the application of the adjustment for inflation as a result of the application of Communication “A” 3702 of the Central Bank which repealed any regime that did not allow companies to restate their accounting balances at period-end currency values. On March 25, 2003, Decree No. 664/03 rescinded the requirement that financial statements be prepared in constant currency, effective for financial periods on or after March 1, 2003, and on April 8, 2003, the Central Bank issued Communication “A” 3921 discontinuing inflation accounting effective as of March 1, 2003. As a result, our audited financial statements as of December 31, 2012, 2013, 2014, 2015 and 2016 do not include the effects of inflation.

Financial Statements

This offering memorandum contains:

- our audited consolidated financial statements as of December 31, 2016 and 2015 and as of December 31, 2015 and 2014. Our audited consolidated financial statements included in this offering memorandum have been audited by our independent accountants, Price Waterhouse & Co. S.R.L., City of Buenos Aires, Argentina, whose reports are included herein. Price Waterhouse & Co. S.R.L. are a member firm of PricewaterhouseCoopers International Limited; and
- our unaudited interim consolidated financial statements as of June 30, 2017 and December 31, 2016 and for the six months ended June 30, 2016 and 2017.

We refer to our audited consolidated financial statements and our unaudited consolidated financial statements collectively as our “financial statements”. Accounting and financial information included in this offering memorandum reflects our shareholders’ equity and the results of our consolidated position, including the consolidation of BACS Banco de Crédito y Securitización S.A. (“BACS”), BHN Sociedad de Inversión S.A. (“BHN Sociedad de Inversión”), BH Valores S.A. (“BH Valores”) and Tarshop S.A. (“Tarshop”) for the fiscal years ended December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2016 and 2017.

General

The term “Argentina” refers to the Republic of Argentina. The terms “Argentine government” or the “government” refer to the federal government of Argentina, and the term “Central Bank” refers to the Central Bank of Argentina (*Banco Central de la República Argentina*).

Currency

Unless otherwise specified or the context otherwise requires, references in this offering memorandum to “peso,” “pesos” or “Ps” are to Argentine pesos, the official currency of Argentina, and references to “dollar,” “dollars,” “U.S. dollars” or “US\$” are to United States dollars.

This offering memorandum contains translations of peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, our assets and liabilities in foreign currency are valued at the exchange rate as of each relevant date or period-end according to the Central Bank reference exchange rate for U.S. dollars. In the case of U.S. dollars, as of December 31, 2016, the exchange rate reported on the free exchange market was Ps.15.8502 = US\$1.00. As of June 30, 2017 and October 18, 2017, the exchange rate reported on the free exchange market was Ps.16.5985 = US\$1.00 and Ps.17.3250, respectively.

You should not construe the translation of currency amounts in this offering memorandum to be representations that the peso amounts actually represent U.S. dollar amounts or that any person could convert the peso amounts into U.S. dollars at the rate indicated or at any other exchange rate. See “Exchange Rates and Exchange Controls” for information regarding recent developments in exchange rates.

Rounding

Certain figures which appear in this offering memorandum (including percentage amounts) and in our financial statements have been subject to rounding adjustments for ease of presentation. Accordingly, figures shown for the same category presented in different tables or different parts of this offering memorandum and in our financial statements may vary slightly, and figures shown as totals in certain tables may not be arithmetic aggregation of the figures that precede them. In addition, certain market shares and other information included in this offering memorandum have been derived from information on the Argentine banking system published by the Central Bank. Information published by the Central Bank related to loans does not include information related to non-bank lenders such as provincial housing institutes and other non-banking institutions.

Economic and Market Data

In this offering memorandum, unless otherwise indicated, macroeconomic data related to the Argentine economy is based on information published by the National Institute of Statistics (*Instituto Nacional de Estadísticas y Censos*, or the “INDEC”), and all market share and other data related to the Argentine financial system is based on information published by the Central Bank. See “Risk Factors—Risks Relating to Argentina—There are concerns about the accuracy of Argentina’s official inflation statistics”.

SUMMARY

This summary highlights selected information regarding us. It does not contain all of the information that you should consider before making an investment decision. For a complete understanding, you should read carefully this entire offering memorandum, including the information included in “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business,” our financial statements, and the attached pricing supplement relating to the Notes.

Overview

Established in 1886 by the Argentine government and privatized in 1999, we are a full-service commercial bank, offering a wide range of banking products and services such as consumer and corporate loans, savings accounts, credit and debit cards, and related financial services to individuals, small- and medium-sized companies and large corporations. All of our operations are located in Argentina where we operate through a nationwide network of 65 branches in all 23 provinces and the City of Buenos Aires, and 15 additional points of sale across Argentina. We seek to distinguish ourselves from other Argentine banks through our focus on household and consumer loans, which we believe offers attractive opportunities for continued growth.

We have historically been Argentina’s leading mortgage lender and provider of mortgage related insurance and mortgage loan services, according to data from the Central Bank. As of June 30, 2017, we were the 14th largest bank in Argentina in terms of total shareholders’ equity with Ps.6,681.2 million and 15th in terms of unconsolidated assets of Ps.49,272.0 million. Our net income for the years ended December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2017 was Ps.550.0 million, Ps.1,085.8 million, Ps.615.3 million and Ps.625.0 million, respectively, which represented a return on average equity of 13.3%, 22.1%, 10.7% and 19.6%, respectively, and a return on average assets of 2.1%, 3.1%, 1.3% and 2.3%, respectively. As of June 30, 2017, we had total shareholders’ equity of Ps.6,681.2 million and total assets of Ps.55,261.9 million.

In line with our strategy to continue diversifying our loan portfolio, our portfolio of non-mortgage loans increased from Ps.14,845.9 million as of December 31, 2014 to Ps.17,944.7 million as of December 31, 2015, to Ps.24,305.4 million as of December 31, 2016 and to Ps.28,147.3 million as of June 30, 2017, representing an increase from 88.1% as of June 30, 2016 to 89.9% as of June 30, 2017 in total non-mortgage loans granted by us to the non-financial private sector. Non-performing loans as a percentage of our total loan portfolio was 2.3% as of December 31, 2014, 2.0% as of December 31, 2015, 2.7% as of December 31, 2016 and 2.9% as of June 30, 2017.

In recent years, we have diversified our funding base and have become one of the most frequent issuers of corporate debt in Argentina based on the percentage of our total funding, by developing our presence in the domestic and international capital markets. Our financial indebtedness as a percentage of our total funding was 19.9% as of December 31, 2014, 27.2% as of December 31, 2015, 47.2% as of December 31, 2016 and 49.4% as of June 30, 2017.

Our subsidiaries include BACS, which specializes in investment banking, asset securitization and asset management; BHN Vida S.A. (“BHN Vida”), a life insurance company; BHN Seguros Generales S.A. (“BHN Seguros Generales”), a homeowners’ insurance company; and Tarshop, which focuses on selling consumer finance products and making cash advances to unbanked clients.

Our principal shareholders are the Argentine government and IRSA Inversiones y Representaciones Sociedad Anónima, a leading real estate company in Argentina with shares listed in Argentina on the *Bolsas y Mercados Argentinos S.A.* (“BYMA”) and on the New York Stock Exchange. See “Principal Shareholders”.

Our Strategy

In 2004, we started refocusing our business, by developing and introducing new products, modernizing our systems and transforming our target markets. This has allowed us to evolve from a financial institution focused primarily on mortgage lending to a full-service commercial bank. We intend to continue to strengthen our position as a leading commercial bank in Argentina through the following strategic initiatives:

- *Continued Focus on Consumer Finance.* We intend to continue to enhance the scope and quality of the financial services provided to our individual clients and aim to acquire new clients. We intend to continue to use direct marketing to acquire new clients and improving our database processing to identify potential customers. We will also continue to develop e-channels in order to enhance our net distribution capabilities, such as home and mobile banking.

- *Further Develop Our Corporate Banking Business.* We intend to complement our consumer finance activities with a substantial commercial loan portfolio. We seek to identify growth-oriented companies and to play an active role in their development by providing loans, cash management and other commercial banking services and assisting them to gain access to capital markets. We intend to increase our exposure to industry sectors that we believe have promising prospects for continued growth.
- *Universal Banking with Continuing Focus on Housing Solutions.* We intend to maintain our leading position in the mortgage loan market and to offer a wide range of products to meet our customers' mortgage financing needs. In addition to traditional mortgage lending and securitization activities, we intend to take advantage of new opportunities in the mortgage finance sector such as acting as trustee for the government-sponsored Argentine Bicentennial Credit Program for Family Housing (*Programa Crédito Argentino del Bicentenario para la Vivienda Única Familiar – PROCREAR*), which contemplates the promotion of mortgage loans to individuals and the construction of new urban residential developments, and to become an important player in the new inflation-adjusted mortgage market.
- *Diversifying Funding Sources.* We intend to continue to improve our funding mix by diversifying our short-term funding and to enhance long-term funding in order to align to industry standards and take advantage of capital markets opportunities. In this regard, we will continue to focus on attracting demand deposits and issuing debt in capital markets.
- *Rigorous Risk Management.* Rigorous credit and risk management policies are essential for the successful implementation of our business strategy. We seek to continuously improve our risk management policies and processes and overall asset quality by adopting and adhering to international best practices. We also intend to focus on monitoring the respective risks and profitability of our business units (applying *raroc* models), selectively originating new loans, segmenting our retail banking portfolio to identify client risks and price loans accordingly and maintaining a well-diversified portfolio of corporate loans. We are also Basel II compliant, and are in the process of implementing Basel III pursuant to the implementation schedule set forth by the Central Bank.
- *Increasing Profitability by Enhancing Customer Loyalty.* We seek to expand and strengthen our relationship with our existing customers, which we believe represent a source of stable, recurring revenues and opportunities for further growth. We seek to establish ourselves as our customers' preferred provider of diversified financial services by cross-selling a wide range of services and multi-product offerings and by focusing on opportunities to increase our fee income.
- *Promotional Activities to Reinforce Brand.* We intend to emphasize promotional activities and loyalty campaigns to continue to foster our image as a contemporary, simple and inclusive bank. We will do so by creative use of social media and marketing strategies designed to position us as a modern bank and to appeal to a younger client base.
- *Seize Market Opportunities.* We have continued our internal reorganization, optimizing employee headcount in certain non-core activities to improve operating efficiency and profitability. Our internal reorganization is in its final stage and expected to be completed in 2018. Also, we continuously explore the possibility of selectively acquiring other banks or financial institutions to improve our distribution channels, diversify our sources of funding and take advantage of operational synergies, but we cannot assure you that we will be able to do so.

SUMMARY OF THE PROGRAM

This summary highlights important information regarding this Program. We urge you to read the entire offering memorandum and any pricing supplement related to an issue of Notes. The terms and conditions contained in this section will govern the Notes to be issued under the Program, but the applicable pricing supplement will contain the specific terms and conditions of the particular Notes to be issued, which will supersede, supplement and/or modify these general terms and conditions, always safeguarding the investors' interests.

In this offering memorandum, references to “Notes” are to any Notes that we may issue under the Program, unless the context otherwise requires.

Issuer	Banco Hipotecario S.A.
Dealers	The Notes may be offered directly by us or through such dealers and/or agents as appointed by us from time to time in each applicable pricing supplement. This offering memorandum may not be used to make sales of Notes unless it is accompanied by the applicable pricing supplement.
Amount of the Program.....	We may issue Notes provided that the outstanding amount under the Program does not exceed at any time the maximum principal amount of US\$1,500,000,000 (or its equivalent in pesos or other currencies).
Program Duration.....	Five years from July 28, 2016.
Issuance in Series	We may issue the Notes in series. Within each series, we may issue tranches of Notes, which shall be repaid within the time set forth in the applicable regulations, as long as the outstanding principal amount of all Notes under the Program does not exceed the maximum principal amount of US\$1,500,000,000 (or its equivalent in pesos or other currencies). We will set out the specific terms of each series and/or tranche in the applicable pricing supplement to this offering memorandum.
Further Issues of Notes.....	If permitted by banking regulations in Argentina and CNV Rules, we may, from time to time, without the consent of, and/or notice to, the holders of any outstanding Notes, issue further Notes of the same or a new series.
Ranking	The Notes issued under this Program will constitute <i>obligaciones negociables simples no convertibles en acciones</i> (simple, non-convertible notes) under Argentine law and will be issued pursuant to, and in compliance with, all of the requirements of the Negotiable Obligations Law and any other applicable Argentine laws and regulations. Unless otherwise specified in the applicable pricing supplement, the Notes will be our unsecured and unsubordinated obligations and will rank at least <i>pari passu</i> in right of payment with our other unsecured and unsubordinated indebtedness (other than obligations that are granted preference by statute or operation of law, including deposits). If so specified in the applicable pricing supplement, we may issue subordinated Notes, which will be junior in right of payment to our unsubordinated indebtedness (other than obligations preferred by statute or by operation of law, including deposits), in accordance with applicable laws (subject to certain restrictions on the pledge of collateral to third parties imposed by the Central Bank).
Placement of the Notes.....	Each public offering of Notes in Argentina and each placement of Notes will be made in accordance with the provisions of the Capital Markets Law and CNV Rules and any other applicable law and/or regulations and through mechanisms authorized by Resolution No. 662/2016 of the CNV (book building or auction or competitive bidding). A Spanish language

version of this offering memorandum and each pricing supplement will be made available to the general public in Argentina.

The Notes have not been and will not be registered under the Securities Act, any state securities laws or the securities laws of any other jurisdiction (other than Argentina) and may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S), except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the Bank will only offer and sell Notes in transactions exempt from registration under the Securities Act to QIBs or institutional accredited investors (as defined in Rule 501(a)(1), (2) or (3) under the Securities Act) in reliance on Rule 144A or outside the United States to non-U.S. persons in compliance with Regulation S. Notwithstanding the foregoing, each pricing supplement will detail the placement efforts to be undertaken pursuant to the applicable jurisdictions.

Repayment	We may issue Notes that are fully repayable upon maturity or with periodical repayment terms as specified in the applicable pricing supplement, such as annual, semi-annual or quarterly.
Issue Price	We may issue Notes at face value of their principal amount or at a discount or premium on their principal amount, as may be specified in the applicable pricing supplement.
Currencies	We may issue Notes in U.S. dollars or Argentine pesos, as specified in the applicable pricing supplement.
Maturities	The Notes will be issued subject to such terms and with such maturities as specified by the Bank in the applicable pricing supplement relating to each series and/or tranche, all subject to compliance with the laws and regulations that may be applicable from time to time. The maturity of the Notes may not be for less than 30 days nor more than 30 years from the issue date.
Issue Date	The issue date of each series of Notes will be specified in the applicable pricing supplement.
Interest.....	Notes may bear interest at a fixed rate or at a margin above or below a floating rate based on LIBOR, U.S. Treasury rates or any other base rate, as we will specify in the applicable pricing supplement to the extent permitted by applicable Argentine laws and regulations including but not limited to the LEBAC's discount rate (as defined under "Description of the Notes"), the BADLAR Rate (as defined under "Description of the Notes") and the Reference Stabilization Index (<i>Coeficiente de Estabilización de Referencia</i> , or the "CER"). We may also issue Notes on a non-interest bearing basis, as may be specified in the applicable pricing supplement.
Redemption	The applicable pricing supplement may provide that a series of Notes will be fully or partially redeemable (i) at our option and/or (ii) at the option of the holder at a price or prices as set forth in the applicable pricing supplement. Partial redemption will be made on a pro rata basis, by lot or otherwise; <i>provided</i> that the applicable pricing supplement will set forth the specific procedures for redemption of the particular notes that may be issued, which shall supersede, supplement and/or modify the general terms and conditions in this offering memorandum.
Redemption for Tax Reasons	Notes may be redeemed at our option, in whole but not in part, at a price equal to 100% of the principal amount plus accrued and unpaid interest for taxation reasons. See "Description of the Notes—Redemption and Repurchase—Redemption for Taxation Reasons".

Covenants.....	We may assume covenants in connection with a particular series and/or tranche of Notes to be issued, which will be specified in the applicable pricing supplement to each series and/or tranche.
Use of Proceeds.....	We will use the net cash proceeds from any issuance of Notes in compliance with the requirements set forth in Section 36 of the Negotiable Obligations Law, Communication “A” 3046, as amended and supplemented by Communication “A” 5571, of the Central Bank and other applicable regulations, and as specified in the relevant pricing supplement issued in connection with the related series of Notes. Under current Argentine law and regulations, the use of proceeds is restricted to certain purposes, including working capital in Argentina; investments in tangible assets located in Argentina; refinancing of outstanding debt; contributions to the capital of a controlled or related corporation, <i>provided</i> such corporation uses the proceeds from such contribution for the purposes specified above; or making loans in accordance with the rules of the Central Bank and Central Bank Accounting Rules, <i>provided</i> that the use of proceeds of such loans is one of the purposes specified above. See “Use of Proceeds”.
Taxation	We will make payments in respect of the Notes without withholding or deduction for any taxes or other governmental charges imposed by Argentina, or any political subdivision or any taxing authority thereof. If any such withholding or deduction is required by law, we will, subject to certain exceptions, pay such Additional Amounts (as defined under “Description of the Notes”) as may be necessary to ensure that the holders of Notes receive the same amount as they would otherwise have received in respect of payments on the Notes in the absence of such withholding or deduction. See “Description of the Notes—Additional Amounts”.
Denominations	Any Notes we issue will be in minimum denominations as described in the applicable pricing supplement. We may adjust the minimum amount of a Note established by the Rules of the Central Bank, as set forth in Communication “A” 5841, which is currently Ps.1,000,000.
Form of Notes	Unless otherwise permitted by applicable law and specified in the applicable pricing supplement, the Notes will be issued in registered form without interest coupons. Unless otherwise permitted by applicable law, we will only issue registered Notes or Notes deposited with a custodian or a clearing system, not exchangeable for certificated bearer notes, as set forth in the applicable pricing supplement. Any Notes sold in the United States to QIBs in reliance on Rule 144A will be represented by one or more Rule 144A Global Notes. Any Notes sold outside the United States to non-U.S. persons in reliance on Regulation S will be represented by one or more Regulation S Global Notes. See “Description of the Notes—Form and Denomination”.
Selling Restrictions	There are restrictions on the sale of the Notes and the distribution of this offering memorandum, any pricing supplement and any other offering material. See “Subscription and Sale” and “Transfer Restrictions”. Additional restrictions on sale will be described in the applicable pricing supplement.
Transfer Restrictions	We have not registered the Notes under the Securities Act, and accordingly the Notes may not be transferred except in compliance with certain transfer restrictions. See “Transfer Restrictions”.
Registration Rights.....	If specified in the applicable pricing supplement, we may grant registration rights to the holders of any series of Notes.

Listing	The Notes will be listed on one or more markets authorized by the CNV. To this end, we may apply to have a series of Notes listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and to be listed on the BYMA, as well as in any other authorized market in Argentina or abroad. However, we cannot assure you that these applications, if made, will be approved. Additionally, we may issue, under this Program, Notes which are not listed on any authorized market, and the pricing supplement related to a series of Notes will specify whether the Notes of such series will be listed for trading on any exchange.
Summary Action	Pursuant to section 29 of the Negotiable Obligations Law, Notes that qualify as <i>obligaciones negociables</i> entitle their holders to file a summary action (<i>acción ejecutiva</i>); therefore, in accordance with Section 129 of the Capital Markets Law, any depository of Notes will be entitled to issue certificates evidencing the Notes represented by global securities to any beneficial holder. These certificates entitle their beneficial holders to file a legal action before any competent court in Argentina, including a summary action, to enforce collection of any sums due and outstanding under the Notes.
Governing Law.....	The Negotiable Obligations Law establishes the requirements for the Notes to qualify as <i>obligaciones negociables</i> thereunder, and such law, together with the Argentine Companies Law and other Argentine laws and regulations will govern our capacity and corporate authority to issue and deliver the Notes and authorization from the CNV to establish the Program and the offer of the Notes in Argentina. All other matters in respect to the terms and conditions of the Program and the Notes are or will be, as applicable, governed by and construed in accordance with Argentine law. However, issues related to the Notes will be governed by the laws of the State of New York or Argentine law or by the laws of any other jurisdiction if so specified in the applicable pricing supplement and, if so, should be construed in accordance therewith.
Jurisdiction	If the Notes are listed on BYMA, we will irrevocably submit to the jurisdiction of the Court of General Arbitration of the <i>Bolsa de Comercio de Buenos Aires</i> (the “BCBA”) for matters arising in connection with the Notes, by delegation of authority granted by the BYMA regarding constitution of arbitration tribunals, in accordance with the provisions of Resolution No. 18,629 of the CNV. In accordance with Article 46 of the Capital Markets Law, holders may submit disputes regarding the Notes to the non-exclusive jurisdiction of the Arbitral Tribunal of the BCBA, or any other tribunal to be created in the future in accordance with Article 46 of the Capital Markets Law, or the judicial commercial courts located in the City of Buenos Aires, at the sole option of the holders. In cases where the current rules provide for the accumulation of actions brought for the same purpose before a single court, the accumulation will be made before the judicial tribunal. Notwithstanding the foregoing, we will irrevocably submit to the non-exclusive jurisdiction of the competent courts based in the City of Buenos Aires, including ordinary courts for commercial matters, or if applicable, to any court set forth in the relevant pricing supplement in connection with any such commercial action.
Clearing Systems.....	To be specified in the applicable pricing supplement of each series.
Trustees and Agents	The Notes may be issued under indentures and/or agency agreements. The trustees and/or agents under such indentures or agency agreements will perform functions only in respect of such series of Notes specified in the

applicable pricing supplement and shall have the rights and obligations specified therein.

The appointment of trustees and agents will be detailed in the applicable pricing supplement.

Risk Factors.....

See “Risk Factors” beginning on page 11 of this offering memorandum and the applicable similar disclosure in the pricing supplement for a description of certain significant risks involved in making an investment in the Notes.

Summary Financial and Other Information

The following tables present our summary consolidated financial and other information as of and for the years ended December 31, 2012, 2013, 2014, 2015 and 2016 and as of and for the six-month periods ended June 30, 2016 and 2017. This information should be read in conjunction with, and is qualified in its entirety by reference to, our financial statements included in this offering memorandum and the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Selected Statistical Information”.

The summary consolidated financial information as of December 31, 2014, 2015 and 2016, and for each of the years ended December 31, 2014, 2015 and 2016 has been derived from our consolidated financial statements included in this offering memorandum which have been audited by Price Waterhouse & Co. S.R.L. The reports of Price Waterhouse & Co. S.R.L. on our audited consolidated financial statements appear elsewhere in this offering memorandum. The summary consolidated financial information as of December 31, 2012 and 2013 and for the years ended December 31, 2012 and 2013 has been derived from our audited consolidated financial statements not included in this offering memorandum.

The consolidated financial information as of June 30, 2017 and for the six-month periods ended June 30, 2016 and 2017 has been derived from our unaudited interim consolidated financial statements included in this offering memorandum. Our results of operations for the six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the year ended December 31, 2017 or for any other period.

Our audited and unaudited financial statements have been prepared in accordance with Central Bank Accounting Rules, which differ in certain significant respects from Argentine GAAP and IFRS. We have included a description of certain significant differences between IFRS and Central Bank Accounting Rules, as applied to us in “Annex I—Summary of Significant Differences Between Central Bank Accounting Rules and IFRS”. Our audited financial statements do not contain any reconciliation to IFRS of our shareholders’ equity or our net income; however, such reconciliation is included in our unaudited financial statements. Potential investors in Notes offered under the Program should consult with their professional advisors for an understanding of the differences between our accounting policies and Argentine GAAP and IFRS and how those differences affect our financial information herein and in any pricing supplement. In 2014, the Central Bank issued Communication “A” 5541, which provided a roadmap to converge the existing informational and accounting regime in accordance with Central Bank Accounting Rules and IFRS. Moreover, in December 2016, the Central Bank issued Communication “A” 6114, which established the criteria that should be taken into consideration by financial institutions in the framework for convergence starting on January 1, 2018. We are currently undertaking a full review of our accounting systems in preparation for our timely adoption of IFRS accounting standards.

Effective January 1, 1995, pursuant to Resolution No. 388 of the Financial Superintendency, we discontinued our prior practice of adjusting the results presented in our financial statements to reflect the effects of inflation. Effective January 1, 2002, we resumed the adjustment of our results to reflect the effects of inflation, as a result of the application of Communication “A” 3702 of the Central Bank, which repealed any regime that did not allow companies to restate their accounting balances at period-end currency values. On March 25, 2003, Decree No. 664/03 rescinded the requirement that financial statements be prepared in constant currency, effective for financial periods on or after March 1, 2003 and on April 8, 2003, the Central Bank issued Communication “A” 3921 discontinuing inflation accounting effective as of March 1, 2003. As a result, our audited financial statements as of December 31, 2012, 2013, 2014, 2015 and 2016 do not include the effects of inflation.

The exchange rate used for purposes of translation of amounts in pesos to U.S. dollars (i) as of December 31, 2016 was Ps.15.8502 = US\$1.00, and (ii) as of June 30, 2017 was Ps.16.5985 = US\$1.00, in each case, in accordance with the Reference Exchange Rate published by the Central Bank as of each such date. See “Exchange Rates and Exchange Controls”.

	For the Year Ended December 31,					For the Six Months Ended June 30,	
	2012	2013	2014	2015	2016	2016	2017
SELECTED RATIOS⁽⁴⁾						(unaudited)	
Profitability							
Return on average assets ⁽⁵⁾	2.39%	2.31%	2.13%	3.07%	1.34%	1.88%	2.33%
Return on average shareholders' equity ⁽⁶⁾	10.31%	11.53%	13.34%	22.07%	10.70%	13.34%	19.63%
Net financial margin ⁽⁷⁾	7.24%	8.96%	8.97%	8.57%	6.16%	7.34%	7.04%
Efficiency ⁽⁸⁾	71.20%	66.59%	67.49%	65.22%	74.76%	73.23%	67.46%
Capital							
Total shareholders' equity as a % of total assets.....	21.59%	18.87%	14.02%	13.79%	11.62%	14.35%	12.09%
Total shareholders' equity as a % of total liabilities.....	27.69%	23.36%	16.35%	16.04%	13.20%	16.82%	13.84%
Other assets as a % of assets ⁽⁹⁾	6.33%	6.79%	5.59%	6.54%	6.41%	7.47%	8.09%
Liquidity							
Cash and cash equivalents plus government and corporate securities as a % of deposits.....	44.06%	36.56%	53.92%	57.99%	64.19%	48.17%	57.93%
Net loans as a % of deposits.....	122.12%	120.65%	94.03%	99.89%	143.96%	124.19%	157.62%
Credit Quality							
Non-performing loans as a % of total loans.....	2.31%	2.17%	2.34%	1.98%	2.66%	2.13%	2.94%
Non-performing consumer loans as a % of total consumer loans ⁽¹⁰⁾	3.20%	3.15%	3.41%	2.58%	3.78%	3.05%	4.42%
Non-performing commercial loans as a % of total commercial loans ⁽¹¹⁾	0.57%	0.51%	0.58%	0.67%	0.25%	0.28%	0.08%
Allowances as a % of total loans.....	2.37%	2.20%	2.24%	2.09%	2.49%	2.12%	2.45%
Allowances as a % of non-performing loans ⁽¹²⁾	102.64%	101.62%	95.89%	105.84%	89.19%	99.58%	83.22%
OTHER DATA							
Number of branches.....	55	60	60	62	65	62	65
Number of employees.....	1,980	2,488	2,608	2,494	2,184	2,366	2,092

- (1) The exchange rate used for purposes of translation of balances as of December 31, 2016 and June 30, 2017 was Ps.15.8502 = US\$1.00 and Ps.16.5985 = US\$1.00, respectively, in accordance with the Reference Exchange Rate published by the Central Bank as of each such date.
- (2) Includes Ps.972.1million, Ps.29.9 million, Ps.2,422.2 million, Ps.1,295.6 million, Ps.1,116.9 million, Ps.1,295.6 million and Ps.3,606.0 million from instruments issued by the Central Bank as of December 31, 2012, 2013, 2014, 2015 and 2016 and as of June 30, 2016 and 2017, respectively.
- (3) Includes Ps.2,013.7 million, Ps.2,660.1 million, Ps.4,347.1 million, Ps.7,010.0 million, Ps.16,018.7 million, Ps.9,720.8 million and Ps.18,703.6 million in unsubordinated negotiable obligations as of December 31, 2012, 2013, 2014, 2015 and 2016 and as of June 30, 2016 and 2017, respectively.
- (4) The ratios shown were prepared in accordance with Central Bank Accounting Rules. Pursuant to those standards, current and non-current assets as well as current and non-current liabilities are not presented as separate line items. Consequently, it is impossible to calculate ratios such as "Capital Immobilization," which differs from CNV Rules and Argentine GAAP.
- (5) Consists of net income (annualized in the case of ratios as of June 30, 2016 and 2017) as a percentage of average total assets. Average assets are a regular average between the balance of consolidated assets at the beginning of the period (taken as the beginning of the period on December 31 of the previous year) and the balance of consolidated assets at the end of the period, derived from our financial statements.
- (6) Consists of net income (annualized in the case of ratios as of June 30, 2016 and 2017) as a percentage of total average shareholders' equity. Net average shareholders' equity is a regular average between the balance of consolidated net shareholders' equity at the beginning of the period (taken as the beginning of the period on December 31 of the previous year) and the balance of consolidated net shareholders' equity at the end of the period, as derived from our financial statements.
- (7) Consists of net financial income (annualized in the case of ratios as of June 30, 2016 and 2017) as a percentage of average assets.
- (8) Ratio of administrative expenses to the sum of net financial income, net contribution from insurance and other income from services, net.
- (9) "Other Assets" consist of the sum of "Investments in Other Companies," "Miscellaneous Receivables," "Bank Premises and Equipment," "Miscellaneous Assets," "Intangible Assets" and "Items Pending Allocation".
- (10) "Consumer loans" consist of our portfolio of mortgage loans, personal loans and credit card loans. Non-performing consumer loans consist of those loans classified as "Medium Risk," "High Risk," "Uncollectible" or "Uncollectible for Technical Reasons" in accordance with Central Bank loan classification standards.
- (11) "Commercial loans" consist of overdraft facilities, promissory notes, pledge loans and other loans. Non-performing commercial loans consist of those loans classified as "Problematic," "High Risk of Insolvency," "Uncollectible" or "Uncollectible for Technical Reasons" in accordance with Central Bank loan classification standards.
- (12) Consists of allowances as a percentage of consumer and commercial loans which are classified as "Problematic," "High Risk of Insolvency," "Uncollectible" or "Uncollectible for Technical Reasons" in accordance with Central Bank loan classification standards.

RISK FACTORS

Prior to investing in the Notes, you should carefully consider the risks described below and the remaining information included in the applicable pricing supplement and in this offering memorandum. We may face additional risks and uncertainties not currently known to us or which as of the date of this offering memorandum or as of the date of any applicable pricing supplement we might not consider significant, which may adversely affect our businesses. Overall, an investment in securities of issuers in an emerging market or a frontier market, such as Argentina, is subject to a higher degree of risk than an investment in securities of issuers in the United States and certain other markets.

Risks Relating to Argentina

We depend on macroeconomic and political conditions in Argentina.

We are exposed to economic and political conditions in Argentina, considering that as of the date of this offering memorandum, substantially all of our total assets are located in Argentina and our activities are conducted in Argentina.

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high and variable levels of inflation and currency devaluation and depreciation. Despite significant recovery following the 2001-2002 crisis, it has experienced high inflation and the economy stagnated in the last few years. During 2014, the Argentine economy saw a slowdown due to the increase in the applicable exchange rates and decreases in commodity prices. In recent years, the Argentine government has taken measures to contain inflation and attract capital investment to various sectors critical to economic growth and development, particularly the energy sector. In that regard, after assuming office on December 10, 2015, the Macri administration introduced significant economic and policy reforms aimed at stabilizing the economy, reducing macroeconomic imbalances, eliminating market distortions and fostering economic growth. Nonetheless, the Argentine economy continues to confront high rates of inflation and has an increasing need of capital investment, with many sectors, particularly the energy sector, operating near full capacity.

Further, in March 2014, the Argentine government announced a new method of calculating GDP as recommended by the International Monetary Fund (“IMF”) (using 2004 as the base year instead of 1993). On June 29, 2016, a re-calculation of estimated GDP rates based on 2004 prices was undertaken and resulted in calculated rates of 2.4% in 2013, (2.5)% in 2014, 2.5% in 2015 and (2.1)% in 2016. According to INDEC, the growth in the second quarter of 2017 compared with the same quarter in the previous year was 2.7%.

On February 22, 2017, Finance Minister Nicolas Dujovne announced fiscal targets for the period 2017-2019, ratifying the target set in the 2017 budget - which established a primary deficit of 4.2% of GDP for 2017 - and of 3.2% for 2018 and 2.2% for 2019. Quarterly targets as a percentage of GDP were set for 2017 at 0.6% for the first quarter; 2.0% for the second; 3.2% for the third; and 4.2% for the fourth.

Presidential and Congressional elections in Argentina were held on October 25, 2015, and a runoff election between the two leading Presidential candidates was held on November 22, 2015, which resulted in Mr. Mauricio Macri being elected President and taking the oath of office on December 10, 2015. The Macri administration has announced and pursued a policy agenda aimed at adopting measures that are market friendly and designed to ensure long-term economic growth, which includes reducing the fiscal deficit, eliminating restrictions on capital flows and access to the exchange rate market, correcting energy and transport prices, and obtaining financing through the capital markets.

The Macri administration has adopted the following key economic and policy reforms to date.

- *INDEC reforms.* President Macri appointed Mr. Jorge Todesca, previously a director of a private consulting firm, as head of the INDEC. On January 8, 2016, the Argentine government declared a state of administrative emergency relating to the national statistical system and the INDEC, until December 31, 2016. During 2016, the INDEC implemented certain methodological reforms and adjusted certain macroeconomic statistics on the basis of these reforms. Following the declared emergency, the INDEC ceased publishing statistical data until a rearrangement of its technical and administrative structure was finalized. During the course of implementing these reforms, however, INDEC has used official Consumer Price Index, or “CPI,” figures and other statistical information published by the Province of San Luis and the City of Buenos Aires. On June 29, 2016, the INDEC

published revised GDP data for the years 2004 through 2015. On August 31, 2016, the IMF Executive Board met to consider the progress made by Argentina in improving the quality of official GDP and CPI data and noted the important progress made in strengthening the accuracy of Argentina's statistics. On November 10, 2016, the IMF lifted the existing censure on Argentina regarding these data. Investors can find the INDEC's published information at www.indec.gov.ar/novedades.

- *Agreement with holdout creditors.* The Argentine government has reached agreements with substantially all of the holdout bondholders who had not previously participated in Argentina's sovereign debt restructurings (in terms of claims) and regained access to the international capital markets, issuing several new series of sovereign bonds since President Macri took office.
- *Foreign exchange reforms.* In addition, the Macri administration eliminated a significant portion of foreign exchange restrictions, including certain currency controls that were imposed under the Kirchner administration. On August 9, 2016, the Central Bank issued Communication "A" 6037 replaced by resolution "A" 6244, which substantially changed the existing legal framework and eliminated certain restrictions limiting access to the foreign exchange market Mercado Único y Libre de Cambios, or "MULC". The principal measures adopted as of the date of this offering memorandum include:
 - i. the reestablishment of Argentine residents' rights to purchase and remit foreign currency outside of Argentina without limit and without specific allocation (*atesoramiento*);
 - ii. the elimination of the mandatory, non-transferable and non-interest bearing deposit previously required in connection with certain transactions involving foreign currency inflows by reducing the amount of the deposits from 30% to 0%;
 - iii. the elimination of the requirement to transfer and settle the proceeds from new foreign financial indebtedness incurred by the foreign financial sector, the non-financial private sector and local governments through the MULC; and
 - iv. the elimination of the requirement that proceeds from debt issuances abroad must be maintained undistributed for a minimum of 365 calendar days.
- *Foreign trade reforms.* The Macri administration eliminated export duties on wheat, corn, beef and regional products, and reduced the duty on soybeans by 5% to 30%. Further, the 5% export duty on most industrial exports was eliminated. With respect to payments for imports of goods and services, the Macri administration announced the gradual elimination of restrictions on access to the MULC for any transactions originated before December 17, 2015. Regarding transactions executed after December 17, 2015, no quantitative limitations apply.
- *National electricity state of emergency and reforms.* Following years of very limited investment in the energy sector, as well as the continued freeze on electricity and natural gas tariffs since the 2001-2002 economic crisis, Argentina began to experience energy shortages in 2011. In response to the growing energy crisis, the Macri administration declared a state of emergency with respect to the national electricity system, which will remain in effect until December 31, 2017. The state of emergency enables the government to take actions designed to ensure the supply of electricity to the country, such as instructing the Ministry of Energy and Mining to design and implement, with the cooperation of all federal public entities, a coordinated program to guarantee the quality and security of the electrical grid. In addition, through Resolution No. 6/2016 of the Ministry of Energy and Mining and Resolution No. 1/2016 of the National Electricity Regulatory Agency (*Ente Nacional Regulador de la Electricidad*), the Macri administration announced the elimination of a portion of energy subsidies currently in effect and a substantial increase in electricity rates. As a result, average electricity prices have already increased and could increase further. By correcting tariffs, modifying the regulatory framework and reducing the government's involvement in the sector, the Macri administration aims to correct distortions in the energy sector and stimulate investment. However, certain of the Macri government's policy initiatives have been challenged in Argentine courts and resulted in judicial injunctions or adverse rulings, which may reduce the effectiveness of the measures taken by the current administration.

- *Tariff increases.* With the aim of encouraging companies to invest and improve the services they offer and enabling the government to assist those in need, the Macri administration has begun updating the tariffs for electricity, transportation, gas and water services. Each of the announced tariff increases contemplates a *tarifa social* (social tariff), which is designed to provide support to vulnerable groups, including beneficiaries of social programs, retirees and pensioners who receive up to two minimum pensions, workers who receive up to two minimum salaries, individuals with disabilities, individuals registered in the *Monotributo Social* program, domestic workers and individuals receiving unemployment insurance.

On August 18, 2016, the Supreme Court of Argentina in “*Centro de Estudios para la Promoción de la Igualdad y la Solidaridad versus Ministry of Energy and Mining*,” upheld lower court injunctions suspending the proposed increases in gas tariffs and instructed the Ministry of Energy and Mining to conduct a non-binding public hearing prior to sanctioning any such increases. The public hearings were held on September 16, 2016. Pursuant to the holding by the Supreme Court, the Gas Regulatory Entity, or “Enargas,” issued Resolution No. 3960 and 3961 ordering the reestablishment of the prior tariff scheme as of March 31, 2016, and implemented an installment regime for the payment of overdue bills.

- *Tax Amnesty Law.* In July 2016, the *Régimen de Sinceramiento Fiscal*, or “Tax Amnesty Law,” was introduced to promote the voluntary declaration of assets by Argentine residents. The Tax Amnesty Law allowed Argentine tax residents holding undeclared funds or assets located in Argentina or abroad to (i) declare such property until March 31, 2017 without facing prosecution for tax evasion or being required to pay past-due tax liabilities on the assets, if they could provide evidence that the assets were held by certain specified cut-off dates, and (ii) keep the declared property outside Argentina and not repatriate such property to Argentina. With respect to cash that was not deposited in bank accounts by the specified cut-off dates, such amounts had to be disclosed and deposited by October 31, 2016 in special accounts opened at Argentine financial entities. Depending on the amount declared and how soon it was declared, the election to subscribe for certain investment securities and the payment method used, those who took advantage of the Tax Amnesty Law paid a special tax of between 0% and 15% on the total amount declared. Alternatively, they could invest an equivalent amount in Argentine government bonds or a fund that will finance, among other things, public infrastructure projects and small to medium-sized businesses in general. Taxpayers could elect to subscribe for certain investment securities and reduce the tax rates payable upon disclosure of previously undisclosed assets until March 31, 2017.
- *Fiscal policy:* In 2015, the fiscal deficit was 5.4% of GDP. The Macri administration reduced the primary fiscal deficit by approximately 0.6% of GDP during 2016 through a series of tax and other measures, and pursued a primary fiscal deficit target of 4.8% of GDP in 2016 through the elimination of subsidies and the reorganization of certain expenditures. However, the primary fiscal deficit for October 2016 increased 183.9% compared to the comparable period in 2015, while the aggregated primary fiscal deficit as of January 2016 represented a 69.1% increase compared to the same period of 2015, which represented 75% of the target for 2016. The Macri administration’s ultimate aim is to achieve a balanced primary budget by 2019.
- *Correction of monetary imbalances:* The Macri administration announced the adoption of an inflation targeting regime in parallel with the floating exchange rate regime and set inflation targets for the next four years. The Central Bank has increased the use of stabilization policies to reduce excess monetary imbalances and reduced peso interest rates to offset inflationary pressure.

While some of the measures adopted have led to higher rates of inflation, there has been an increase in the demand for pesos and the recovery of credit toward a gradual normalization of macroeconomic conditions. To this end, access to external financing may have a positive effect, by significantly reducing the monetization of the fiscal deficit without requiring tax increases that would put economic growth at risk. Simultaneously, the sustained inflow of foreign capital should result in higher balances of foreign exchange in the MULC and stabilizing the exchange rate of the peso and its impact on inflation. This, in turn, would increase demand for real balances in pesos, allowing for a reduction in interest rates and generating further demand for credit that fosters economic activity.

As of the date of this offering memorandum, the impact of the Macri administration’s policies on the Argentine economy as a whole and banking sector in particular cannot be predicted. The legislative elections to be

held on October 22, 2017 could result in changes in the political distribution of seats in both chambers in the Argentine Congress, and therefore, the new Argentine Congress might approve legislative changes affecting the Argentine economy.

Higher rates of inflation, any decline in GDP growth rates and/or other future economic, social and political developments in Argentina, a lack of stability and stability of the rate of exchange of the peso against other currencies, and a decline in consumer confidence or foreign direct investment, among other factors, including the recent elections, may materially adversely affect the development of the Argentine economy which would likely adversely affect our business financial condition or results of operations.

Continuing inflation may have an adverse effect on the economy.

According to the INDEC, the consumer price index increased 23.9% and 10.9% in 2014 and 2013, respectively. According to the consumer price index of the City of Buenos Aires, inflation for 2015 was 26.9%. Private estimates, on average, refer to annual rates of inflation substantially in excess of those published by the INDEC for these periods. The best available information for 2016 is the annual measurement of the index of consumer prices made by the City of Buenos Aires of 41%. Uncertainty surrounding future inflation rates has slowed potential recovery in the long-term credit market. See “—There are concerns about the accuracy of Argentina’s official inflation statistics”.

Historically, high rates of inflation have undermined the Argentine economy and the government’s ability to foster conditions for stable growth. High rates of inflation may also undermine Argentina’s competitiveness in international markets and adversely affect economic activity and employment, as well as our business, financial condition and results of operations. In particular, the margin on our services is impacted by the increase in our costs in providing those services, which is influenced by wage inflation, as well as other factors.

High inflation would also adversely affect economic activity, employment, real salaries, consumption and interest rates. In addition, the dilution of the positive effects of any depreciation of the peso on the export-oriented sectors of the Argentine economy would decrease the level of economic activity in the country. In turn, a portion of the Argentine government’s outstanding debt is adjusted by the *Coeficiente de Estabilización de Referencia* (“CER”, as per its acronym in Spanish), a currency index tied to inflation. Therefore, any significant increase in inflation would cause an increase in Argentina’s debt in terms of pesos and, consequently, its financial obligations.

In recent years, the government has taken certain measures to contain inflation, such as implementing a fair price program that requires supermarkets to offer certain products at a government-determined price, and agreements with workers’ unions to implement salary increases. Additionally, the government enacted Law No. 26,991 (the “Supply Law”), which empowers the government to intervene in certain markets when it considers that any market participant is trying to impose prices or supply restrictions. The Supply Law provides among others pecuniary sanctions, suspension, seizure of operations, and confiscation of goods.

The Macri administration announced and implement a series of measures aimed at counteracting high inflation rates, including maintaining price control programs, strengthening the powers granted to the antitrust authority and a currency plan for reducing the expansion rate of the monetary base. If, despite these measures, inflation rates remain persistently high it could adversely affect the Argentine economy, which could in turn have negative consequences on our business. See “—We depend on macroeconomic and political conditions in Argentina”.

There are concerns about the accuracy of Argentina’s official inflation statistics.

In January 2007, the INDEC modified its methodology used to calculate the consumer price index (the “CPI”), which was calculated as the monthly average of a weighted basket of consumer goods and services that reflected the pattern of consumption of Argentine households. At the time that the INDEC adopted this change in methodology the Argentine government also replaced several key officers at the INDEC, prompting complaints of governmental interference from the technical staff at the INDEC. In addition, the IMF requested Argentina to clarify its inflation rates several times.

On November 23, 2010, the Argentine government began consulting with the IMF for technical assistance in order to prepare a new national consumer price index with the aim of modernizing the current statistical system. During the first quarter of 2011, a team from the IMF started working in conjunction with the INDEC in order to create such an index. Notwithstanding such efforts, reports published by the IMF stated that its staff also used alternative measures of inflation for macroeconomic surveillance, including data produced by private sources, and

such measures have shown inflation rates that are considerably higher than those issued by the INDEC since 2007. Consequently, the IMF called on Argentina to adopt measures to improve the quality of used data by the INDEC. In a meeting held on February 1, 2013, the Executive Board of the IMF emphasized that the progress in implementing remedial measures since September 2012 has not been sufficient. As a result, the IMF issued a declaration of censure against Argentina in connection with the breach of its related obligations to the IMF and called on Argentina to adopt remedial measures to address the inaccuracy of inflation and GDP data without further delay.

In order to address the quality of official data, a new consumer price index (the “IPCNU”), was enacted on February 13, 2014. For the year ended December 31, 2014 the IPCNU was 23.9%. The IPCNU represented the first national indicator to measure changes in prices of household goods for final consumption. While the previous price index only measured inflation in the Greater Buenos Aires, the IPCNU is calculated by measuring prices of goods across the entire urban population of the 23 provinces of Argentina and the City of Buenos Aires. On December 15, 2014, the IMF recognized the progress of Argentine authorities to remedy the inaccurate provision of data, but has delayed the definitive evaluation of the new index.

On January 8, 2016, based on its determination that the INDEC had failed to produce reliable statistical information, particularly with respect to CPI, GDP and foreign trade data, poverty and unemployment rates, the Macri administration declared a state of administrative emergency for the national statistical system and the INDEC. The INDEC suspended publication of certain statistical data until it completes a reorganization of its technical and administrative structure to recover its ability to produce sufficient and reliable statistical information.

After this process of reorganization and recovery, INDEC gradually began to resume publication of official data, and on June, 2016, INDEC restated the publication of inflation data and reported that for May, June, July, August, September, October, November and December of 2016 CPI increased 4.2%, 3.1%, 2.0%, 0.2%, 1.1%, 2.4%, 1.6% and 1.2%, respectively. In early 2017, inflation statistics began to show a steady downward trend in the rates of inflation in line with the Central Bank’s inflation targeting policies. The inflation indexes published by INDEC for the months of January, February, March, April, May, June, July, August and September 2017 were 1.3%, 2.5%, 2.4%, 2.6%, 1.3%, 1.2%, 1.7%, 1.4% and 1.9% respectively.

The Draft Budget Law for fiscal year 2018 includes targets for CPI variation of between 10% and 12% for 2018. Additionally, on June 29, 2016, INDEC published a reassessment of the GDP series, and the growth of the economy under its revised calculations was 2.4% for 2013, (2.5)% for 2014, 2.5% for 2015 and (2.1)% for 2016. The year-on-year decline in GDP for the first three quarters of 2016 was 2.4%. Finally, GDP reported by INDEC for the second quarter of 2017 grew 2.7% compared to the same quarter of 2016, and GDP for the first semester compared to the same semester of the previous year was 1.6% higher.

On November 9, 2016, the IMF, after analyzing Argentina’s progress in improving the quality of official CPI data, withdrew its “censure motion” imposed in 2013, concluding that the CPI of Argentina is now in line with international standards. However, we cannot guarantee that in the future inaccuracy in official data and economic indicators will not recur. If despite recent changes to the INDEC, differences between the figures published by the INDEC and those recorded by private experts persist, there could be a significant decrease in confidence in the Argentine economy, which could adversely affect our business, financial condition and results of operations.

Argentina’s ability to obtain financing in the international capital markets is limited, which may impair its ability to implement reforms and public policies and foster economic growth.

Argentina’s 2001 default and its failure to fully restructure its sovereign debt and negotiate with the holdout creditors has limited and may continue to limit Argentina’s ability to access international capital markets. In 2005, Argentina completed the restructuring of a substantial portion of its defaulted sovereign indebtedness and settled all of its debt with the IMF. Additionally, in June 2010, Argentina completed the renegotiation of approximately 67% of the defaulted bonds that were not swapped in the 2005 restructuring. As a result of the 2005 and 2010 debt swaps, Argentina has restructured approximately 92.1% of its defaulted debt that was eligible for restructuring (the “Debt Exchanges”). Holdout creditors that had declined to participate in the exchanges commenced numerous lawsuits against Argentina in several countries, including the United States, Italy, Germany, and Japan.

As a result of the litigation filed by holdout bondholders and their related efforts to attach Argentina’s sovereign property located in the United States and other jurisdictions, Argentina’s ability to access the international capital markets was severely limited. In February 2016, the government agreed with a group of Italian bondholders to pay in cash the total principal amount of debt owed to such holders. In mid-2016, the government emerged from

default and paid US\$900 million to the approximately 50,000 Italian bondholders who owned government securities with defaulted payments part due.

During February 2016, U.S. federal court special master Daniel Pollack ratified an agreement between the Argentine government and the holdout creditors led by Elliot Management, Aurelius Capital, Davidson Kempner and Bracebridge Capital funds providing for a US\$4.65 billion payment in respect of defaulted sovereign bonds, representing a 25% discount to the total principal amount of principal and interest due on the defaulted bonds, as well as attorney fees and expenses incurred. This agreement stipulated that the terms of the settlement be approved by the Argentine Congress, and that Law No. 26,017 (the “Padlock Law”) and the Sovereign Payment Law be repealed.

In March 2016, the government submitted a bill to Congress seeking authorization to consummate the settlement, which was approved on April 1, 2016, by enactment of Law No. 27,249 pursuant to which, the government was authorized to pay in cash up to US\$11.6 billion to the holdout bondholders. The proceeds for such payment were raised through an issuance of sovereign debt in the international capital markets. Among other provisions, the new law repealed the Padlock Law and Sovereign Payment Law.

At the beginning of April 2016, special master Daniel Pollack announced that the Argentine government had reached agreements with additional holdout bondholders. As a result, the Argentine government has reached agreements with nearly 90% of the debt holders that did not participate in the 2005 and 2010 bond exchange transactions. On April 13, 2016, the Court of Appeals lifted the restrictions on Argentina to fulfill its debt obligations. In April 2016, the government issued US\$15.0 billion principal amount of bonds. On April 22, 2016, the government paid amounts due under the agreement and the U.S. courts removed all previously issued sanctions and injunctions. Since then and as of December 31, 2016, Argentina has issued sovereign debt in capital markets for US\$45.8 billion.

On April 15, 2016, Moody’s upgraded Argentina’s credit rating from “Caa1” to “B3” after agreements with the holdouts had been reached. Moody’s rating of bonds issued under foreign legislation and bonds in foreign currency restructured under local law were also upgraded from “Caa2” to “B3”.

As of the date of this offering memorandum, proceedings initiated by holdouts and other international creditors that did not accept Argentina’s payment offer continue in several jurisdictions, although the size of the claims involved has declined considerably. The potential consequences of final judgments from courts in various jurisdictions are unclear and further adverse rulings could adversely affect the Argentine government’s ability to issue debt securities or obtain favorable terms when the need to access the international capital markets arises, and consequently, our own capacity to access these markets could also be limited.

Foreign shareholders of companies operating in Argentina have initiated investment arbitration proceedings against Argentina that have resulted and could result in arbitral awards and/or injunctions against Argentina and its assets and, in turn, limit its financial resources.

In response to the emergency measures implemented by the Argentine government during the 2001-2002 economic crisis, a number of claims were filed before the International Centre for Settlement of Investment Disputes, or “ICSID,” against Argentina. Claimants allege that the emergency measures were inconsistent with the fair and equitable treatment standards set forth in various bilateral investment treaties by which Argentina was bound at the time.

Claimants have also filed claims before arbitral tribunals under the rules of the United Nations Commission on International Trade Law, or “UNCITRAL,” and under the rules of the International Chamber of Commerce, or “ICC”. As of the date of this offering memorandum, it is not certain that Argentina will prevail in having any or all of these cases dismissed, or that if awards in favor of the plaintiffs are granted, that it will succeed in having those awards annulled. Ongoing claims before the ICSID tribunal and other arbitral tribunals could lead to new awards against Argentina, which could have a material adverse effect on our capacity to access to the international capital markets.

The amendment of the Central Bank’s Charter and the Convertibility Law may adversely affect the Argentine economy.

On March 22, 2012, the Argentine Congress passed Law No. 26,739, which amended the charter of the Central Bank and Law No. 23,298 (the “Convertibility Law”). This law amends the objectives of the Central Bank

(established in its charter) and includes a mandate focused on promoting social equity programs in addition to developing monetary policy and financial stability.

A key component of the amendment of the Central Bank charter relates to the use of international reserves, which hit a historical record high of US\$52.6 billion in January 2011. Pursuant to this amendment, Central Bank reserves may be made available to the government for the repayment of debt or to finance public expenditures. During 2013, U.S. dollar reserves held by the Argentine government at the Central Bank decreased significantly, from US\$43.3 billion in 2012 to US\$30.6 billion in 2013, while during 2014 reserves increased slightly to US\$31.4 billion as of December 31, 2014. The Central Bank's foreign currency reserves were US\$25.5 billion as of December 31, 2015, and rose to US\$47.9 billion as of June 30, 2017. The use of Central Bank reserves for expanded purposes by the Argentine government may make the Argentine economy more vulnerable to inflation or external shocks which could adversely affect our financial condition and results of operations.

Significant fluctuation in the value of the peso may adversely affect the Argentine economy as well as our financial performance.

Despite the positive effects of the depreciation of the peso in 2002 on the competitiveness of certain sectors of the Argentine economy, depreciation has had a negative impact on the ability of Argentine businesses to honor their foreign currency-denominated debt obligations, initially resulting in high rates of inflation and significantly reduced real wages, which had a negative impact on businesses that depend on domestic demand, such as utilities and the financial industry, and adversely affected the government's ability to honor its foreign currency-denominated debt obligations.

Since the strengthening of exchange controls began in late 2011, and upon introduction of measures that gave limited access to foreign currency by private companies and individuals, the implied peso exchange rate, as reflected in the quotations for Argentine securities that trade in foreign markets compared to the corresponding quotations in the local market, increased significantly compared to the official exchange rate.

On December 17, 2015, as a result of measures adopted by the Macri administration, certain foreign exchange restrictions were lifted, and the peso depreciated 40% in one day to Ps.13.76 per US\$1.00. Exchange control measures may limit our ability to hedge against the risk of our exposure to the U.S. dollar. We cannot predict the impact of these changes on our financial condition and results of operations.

A depreciation of the peso against other currencies (especially the U.S. dollar) would likely result in a material adverse effect on our business and results of operations given our exposure to U.S. dollar-denominated debt obligations.

On the other hand, a substantial appreciation of the peso against the U.S. dollar negatively impacts the financial condition of entities whose foreign currency-denominated assets exceed their foreign currency-denominated liabilities. In addition, in the short term, a significant real appreciation of the peso would adversely affect exports and could result in a slowdown in economic growth. This could have a negative effect on GDP growth and employment as well as reduce the Argentine public sector's revenues by reducing tax collection in real terms, given its current heavy reliance on taxes on exports. As a result, the appreciation of the peso against the U.S. dollar could have an adverse effect on the Argentine economy and, in turn, our business financial condition and results of operations.

Certain measures that may be taken by the Argentine government may adversely affect the Argentine economy and, as a result, our business, financial condition and results of operations.

Prior to December 2015, the government had increased its direct intervention in the economy through the implementation or change of laws and regulations, including: nationalizations or expropriations; restrictions on production, imports and exports; exchange and/or transfer restrictions; direct and indirect price controls; tax increases, changes in the interpretation or application of tax laws and other retroactive tax claims or challenges; cancellation of contract rights; and delays or denials of governmental approvals, among others.

In November 2008, the government enacted Law No. 26,425 which provided for the nationalization of the *Administradoras de Fondos de Jubilaciones y Pensiones* (the "AFJPs"). In April 2012, the government resolved to nationalize YPF S.A. and imposed major changes to the system under which oil companies operate, principally through the enactment of Law No. 26,714 and Decree No. 1277/2012. In February 2014, the government and Repsol S.A. (the former principal shareholder of YPF S.A.) announced that they had reached agreement on the compensation payable to Repsol for the expropriation of YPF S.A. of US\$5 billion, payable in Argentine sovereign

bonds with various maturities. On April 23, 2014, the agreement with Repsol was approved by the Argentine Congress and on May 8, 2014, Repsol S.A. received the relevant Argentine government bonds.

There are other examples of intervention by the government. In December 2012 and August 2013, Congress established new regulations relating to domestic capital markets. The regulations generally provide for increased government intervention in the capital markets authorizing, for example, the CNV to appoint observers with the ability to veto the decisions of the board of directors of publicly listed companies under certain circumstances and to suspend the board of directors for a period of up to 180 days. On November 16, 2016, the government submitted to Congress a bill proposing an amendment to the Capital Markets Law, which, if finally approved, would render ineffective this CNV's current power of intervention. The bill remains pending as of the date of this offering memorandum.

We cannot assure you that these or similar and other measures adopted by the Argentine government will not have a material adverse effect on the Argentine economy and, as a consequence, adversely affect our financial condition, our results of operations and the market value of our securities.

The legislative elections to be held on October 22, 2017 could result in changes in the political distribution of seats in both chambers in the Argentine Congress, and therefore, the new Argentine Congress might approve legislative changes affecting the Argentine economy. We can offer no assurances that the policies that may be implemented by the Macri administration will not adversely affect our business, results of operations or financial condition. The inability of the Argentine government to effectively implement its agenda could negatively affect the economy and therefore our results of operations.

The Argentine government may order salary increases to be paid to employees in the private sector, which would increase our operating costs.

In the past, the Argentine government has passed laws, regulations and decrees requiring companies in the private sector to maintain minimum wage levels and provide specified benefits to employees and may do so again in the future. In the aftermath of the Argentine economic crisis, employers both in the public and private sectors experienced significant pressure from their employees and labor organizations to increase wages and to provide additional employee benefits. In August 2012, the government established a 25% increase in minimum monthly salary to Ps.2,875, effective as of February 2013. The Argentine government increased the minimum monthly salary to Ps.3,300 in August 2013, to Ps.3,600 in January 2014, to Ps.4,400 in September 2014, to Ps.4,716 in January 2015, to Ps.5,588 in August 2015 and to Ps.6,060 as from January 2016. In May 2016, the Argentine government announced a 33% increase in the minimum monthly salary to be implemented in three installments. The minimum monthly salary will be updated as follows: Ps.8,060 as of July 1, 2017, Ps.9,500 as of January 1, 2018 and Ps.10,000 in July 2018, an increase of 24% compared to the prior minimum.

Due to persistent high rates of inflation, employers in both the public and private sectors continue to experience significant pressure from unions and their employees to increase salaries. During 2014, various unions agreed with employers' associations on salary increases between 25% and 30%. In June 2015, the union and the Association of Public and Private Banks ("ABAPPRA" per its acronym in Spanish) reached an agreement by which bank employees' salaries were to be increased by 27.8% as from January 1, 2015 and employees were also to receive compensatory income tax paid by such employees, among other benefits. For 2016, an increase in salaries of 33% was agreed. On February 16, 2017, after reaching an agreement with the Ministry of Labor on salary negotiations, the salary increase was set at 24.3% and made retroactive to January 1, 2017. On June 27, 2017, it was approved the minimum monthly salary for employees that work full time as of Ps.8,860, which is still in force as October 2017. The increase to Ps.9,500 in January 2018 and Ps.10,000 in July 2018 was ratified on June 27, 2017.

It is possible that the government could adopt measures mandating further salary increases and/or the provision of additional employee benefits in the future. Any such measures could have a material and adverse effect on our business, results of operations and financial condition.

As of June 30, 2017, 56.17% of our employees were unionized, and we could incur higher ongoing labor costs and disruptions in our operations in the event of a strike or other work stoppage. In addition, any new collective bargaining agreements may have shorter terms than our previous agreements and, if we are not able to negotiate collective bargaining agreements on acceptable terms to us, we may be subject to a significant increase in labor costs, deterioration of employee relations, slowdowns or work stoppages, which could have a material adverse effect on us and on the market price of the Notes.

Exchange controls and restrictions on transfers abroad and capital inflow restrictions, if re-imposed, could limit the availability of international credit.

Until December 2015, many foreign exchange restrictions and controls had limited access to the Exchange Market (*Mercado Único y Libre de Cambios*). But in December 2015, President Macri's government announced certain reforms to the foreign exchange market with the intention of providing greater flexibility and ease of access to the foreign exchange market for individuals and private sector entities. On December 16, 2015, the Central Bank issued Communication "A" 5850, lifting most of the restrictions then in place. Among these measures, free access to the *Mercado Único y Libre de Cambios* was granted for the purchase of foreign currency intended for general purposes, without the need for obtaining the Central Bank's or AFIP's previous consent, and the requirement to deposit 30% of certain capital inflows into Argentina was eliminated. Towards the end of 2016, the remaining exchange control restrictions were also lifted when the Central Bank issued Communications "A" 6037 and "A" 6150, thereby granting free access to the *Mercado Único y Libre de Cambios*. Pursuant to Resolution E 1/2017 of the Ministry of Finance and Communication "A" 6150 modified by Communication "A" 6244 of the Central Bank, the obligation requiring non-residents who make portfolio investments in the country aimed at holding private sector financial assets to maintain for a period of 120 days the funds in the country was abolished. Pursuant to this resolution and the Central Bank Communication "A" 6244, and its amendments, there are no restrictions on entry and exit in the *Mercado Único y Libre de Cambios*. Due to the elimination of the obligation to enter and settle amounts in foreign currency originated in the export of services to non-residents through the *Mercado Único y Libre de Cambios*, to the extent that they are not part of the FOB value and /or CyF of assets exported; the elimination of the requirement of a minimum holding period (72 working hours) in relation to the purchase and sale of public securities authorized to trade on the different local and international stock markets; and the elimination of the requirement of compulsory entry and liquidation of funds resulting from external, main and accessory debt flows are no longer entered or settled in the local exchange market. However, the results of capital inflows in the local exchange market must be accredited to an account opened by a local financial institution.

Notwithstanding the free accessibility that exists today in the *Mercado Único y Libre de Cambios*, the Argentine government may in the future impose additional controls on the foreign exchange market and on capital flows from and into Argentina in response to capital flight or depreciation of the peso. These restrictions may have a negative effect on the economy and on our business if imposed in an economic environment where access to local capital is constrained. See "Exchange Rates and Exchange Controls".

The Argentine economy could be adversely affected by economic developments in other global markets.

Financial and securities markets in Argentina are influenced, to varying degrees, by economic and market conditions in other global markets. The international scenario shows contradictory signals of global growth, as well as high financial and exchange uncertainty. Most emerging economies have been affected by the change in the U.S. monetary policy, resulting in the sharp unwinding of speculative asset positions, depreciations and increased volatility in the value of their currencies and higher interest rates. The general appreciation of the U.S. dollar resulting from a more restrictive U.S. monetary policy contributed to the fall of the international price of raw materials, increasing the difficulties of emerging countries which are exporters of these products. There is global uncertainty about the degree of economic recovery in the United States, with no substantial positive signals from other developed countries and an increased risk of a general deceleration in developing countries, specifically China.

Moreover, the recent challenges faced by the European Union to stabilize certain of its member economies, such as Greece, have had international implications affecting the stability of global financial markets, which has hindered economies worldwide. The Eurozone finance ministers, at a meeting held in August 2015, agreed a third bailout deal for Greece, which required the approval of several countries such as Germany, one of its main creditors.

Although economic conditions vary from country to country, investors' perception of the events occurring in one country may substantially affect capital flows into other countries. International investors' reactions to events occurring in one market sometimes demonstrate a "contagion" effect in which an entire region or class of investment is disfavored by international investors. Argentina could be adversely affected by negative economic or financial developments in other countries, which in turn may have an adverse effect on our financial condition and results of operations. Lower capital inflows and declining securities prices negatively affect the real economy of a country through higher interest rates or currency volatility. The Argentine economy was adversely impacted by the political and economic events that occurred in several emerging economies in the 1990s, including those in Mexico in 1994, the collapse of several Asian economies between 1997 and 1998, the economic crisis in Russia in 1998 and the Brazilian devaluation in January 1999.

In addition, Argentina is affected by economic conditions of its major trade partners, such as Brazil, which devalued its currency in early February 2015, causing the *real* to suffer the steepest depreciation in over a decade. In February 2016, Standard & Poor's downgraded Brazil's credit rating to BB. In December 2015 and February 2016, Fitch Rating and Moody's, respectively, also downgraded Brazil's credit ratings to BB+ and Ba2, respectively. Moreover, Argentina may be affected by other countries that have influence over world economic cycles, such as the United States or China. In particular, China has significantly devalued the *yuan* since the end of 2015, which has adversely affected companies with substantial exposure to that country. Devaluation of the *yuan* continued during 2016, and Chinese economic growth slowed.

If interest rates rise significantly in developed economies, including the United States, Argentina and other emerging and frontier market economies could find it more difficult and expensive to borrow capital and refinance existing debt, which would negatively affect their economic growth. In addition, if these developing countries, which are also Argentina's trade partners, fall into a recession; the Argentine economy would be affected by a decrease in exports. All of these factors would have a negative impact on us, our business, operations, financial condition and prospects.

In a non-binding referendum on the United Kingdom's membership in the European Union on June 23, 2016, a majority of those who voted approved the United Kingdom's withdrawal from the European Union. Any withdrawal by the United Kingdom from the European Union (referred to as "Brexit") would occur after, or possible concurrently with, a process of negotiation regarding the future terms of the United Kingdom's relationship with the European Union, which could result in the United Kingdom losing access to certain aspects of the single EU market and the global trade deals negotiated by the European Union on behalf of its members. Negotiations for the exit of the United Kingdom began in early 2017 and the probable date for the departure is December 2018.

As a result of Brexit, London could cease to be the financial center of Europe and some banks have already announced their intention to transfer many jobs to continental Europe and Ireland and have indicated that Germany could replace London as the financial center of Europe. The possible negative consequences of Brexit include an economic crisis in the United Kingdom, a short-term recession and a decrease of investments in public services and foreign investment. The greatest impact of Brexit would be on the United Kingdom, however the impact may also be significant to the other member states.

As for Argentina, the consequences of Brexit are linked to the weakening of the pound and the euro, which has led to a significant appreciation of the U.S. dollar worldwide. An appreciation of the U.S. dollar and increased risk aversion could lead to a negative effect on the price of raw materials, which would be reflected in the products that Argentina exports to Europe. Another direct consequence of "Brexit" could be a decrease in prices of most commodities, a factor that could affect Argentina if prices stay low in the long term. Bilateral trade could also suffer, but would not be material, as the United Kingdom currently only represents approximately 1% of Argentina's total imports and exports. In addition, it is possible that Brexit could complicate Argentina's ability to issue additional debt in the international capital markets, as funding would be more expensive.

Donald Trump was elected president on November 8, 2016 and took office on January 20, 2017. The election of the new administration has generated volatility in the global capital markets. The new administration has proposed a tax reform and has pledged a more protectionist policy; however, as of the date of this offering memorandum, it remains unclear the nature of the policies to be implemented. The effect of the election of the new administration on the global economy is uncertain, but if the new administration adopts more protectionist policies, it is expected that such a scenario may not be favorable to emerging markets.

The effect of global economic conditions on Argentina could cause a reduction in exports and foreign direct investment, and a decline in national tax revenues and the inability to access to the international capital markets, which could adversely affect our business and results of operations.

A decline in the international prices for Argentina's main commodity exports could have an adverse effect on Argentina's economic growth.

High commodity prices have contributed significantly to the increase in Argentine exports since the third quarter of 2002 as well as in governmental revenues from export taxes (withholdings, which were modified in December 2015 by applying a reduction of the export tax paid on soy products and the export taxes applicable to wheat, maize, sorghum and sunflower have been eliminated in order to strengthen agricultural production). However, this reliance on the export of certain commodities, such as soy, has made the Argentine economy more vulnerable to fluctuations in their prices. If international commodity prices decline, the Argentine government's

revenues would decrease significantly affecting Argentina's economic activity. Accordingly, a decline in international commodity prices could adversely affect Argentina's economy, which in turn would produce a negative impact on our financial condition and results of operations.

In addition, adverse weather conditions can affect the production of commodities by the agricultural sector, which account for a significant portion of Argentina's export revenues. These circumstances would have a negative impact on the levels of government revenues, available foreign exchange and the government's ability to service its sovereign debt, and could either generate recessionary or inflationary pressures, depending on the government's reaction. Either of these results would adversely impact Argentina's economy growth and, therefore, our business, financial condition and results of operations.

Restrictions on the supply of energy could negatively affect Argentina's economy.

As a result of prolonged recession and the forced conversion into pesos and subsequent freeze of natural gas and electricity tariffs in Argentina, there has been a lack of investment in natural gas and electricity supply and transport capacity in Argentina in recent years. At the same time, demand for natural gas and electricity has increased substantially, driven by a recovery in economic conditions and price constraints, which prompted the government to adopt a series of measures that have resulted in industry shortages and/or higher cost. In particular, Argentina has been importing natural gas to compensate for shortages in local production. In order to pay for natural gas imports the government has frequently used Central Bank reserves given the absence of foreign direct investment. If the government is unable to pay for imports of natural gas, economic activity, business and industries may be adversely affected.

The Argentine government has taken a number of measures to alleviate the short-term impact of energy shortages on residential and industrial users. If these measures prove to be insufficient, or if the investment required to increase natural gas production and energy transportation capacity and generation over the medium- and long-term is not available, economic activity in Argentina could be curtailed.

As a first step of these measures, a series of tariff increases and subsidy reductions (primarily applicable to industries and high-income consumers) were implemented. On December 17, 2015 and after publication of Decree No. 134/2015, the Macri administration declared the National Electricity System Emergency until December 31, 2017 and ordered the Ministry of Energy and Mining to propose measures and guarantee the electrical supply. Ministry of Energy and Mining Resolution No. 06/2016 of January 2016 set new seasonal reference prices for power and energy on the *Mercado Eléctrico Mayorista* (MEM) for the period from February 1, 2016 to April 30, 2016 and set an objective to adjust the quality and security of electricity supply.

In February 2016, the Argentine government reviewed the table of electricity and gas tariffs and eliminated the subsidies of these public services, which would have resulted in increases of 500% or more in energy costs, except for low-income consumers. By correcting tariffs, modifying the regulatory framework and reducing the government's participation in the energy sector, the government sought to correct distortions in the energy sector and make the necessary investments. In July 2016, a federal court in the city of La Plata suspended the increase in the gas tariff throughout the Province of Buenos Aires. On August 3, 2016, a federal court in San Martin suspended the increase in gas tariffs throughout the country until a public hearing was held to discuss the rate increase. The case was appealed to the Supreme Court, and on August 18, 2016, the Supreme Court ruled that the increase in the gas tariff of residential users could not be imposed without a public hearing. On September 16, 2016, the public hearing was held where it was agreed that the gas tariff would increase by approximately 200% in October 2016, with biannual increases through 2019.

As for other services, including electricity, a public hearing was held on October 28, 2016 to consider a proposed 31% tariff increase requested by energy distributors. Subsequently, the government announced increases in electricity rates of between 60% and 148%. On March 31, 2017, the Ministry of Energy and Mining published a new tariff schedule with increases of approximately 24% for natural gas with two additional adjustments set for November 2017 and April 2018. This change in the regulatory framework and the establishment of new economic rates for the supply of gas and electricity could modify our cost structure and increase operating and public service costs.

High public expenditure could result in adverse consequences for the Argentine economy.

During the last few years, the Argentine government has substantially increased public expenditures. In 2014, public sector expenditures increased by 43% compared to 2013 and the government reported a primary fiscal

deficit of 0.9%. During recent years, the Argentine government has resorted to the Central Bank and to the *Administración Nacional de la Seguridad Social* (Federal Social Security Agency, or “ANSES,” per its acronym in Spanish) to source part of its funding requirements. In 2015, this trend continued as primary fiscal balance showed a deficit of 5.4% as of December 31, 2015. The Macri government has begun adjusting its subsidy policies, particularly those related to energy, electricity and gas, water and public transportation. On December 31, 2016, the primary fiscal balance was Ps.359,382 million, which represents a deficit of 4.6% of GDP. Changes in these policies could materially and adversely impact consumer purchase capacity and economic activity and may lead to an increase in prices.

Moreover, the primary fiscal balance could be negatively affected in the future if public expenditures continue to increase at a rate higher than tax revenues due to subsidies to lower-income sectors, social security benefits, financial assistance to provinces with financial problems, increased spending on public works and subsidies to the energy and transportation sectors. A further deterioration in fiscal accounts could negatively affect the government’s ability to access the long-term capital and credit markets and could in turn result in more limited access to such markets by Argentine companies.

Possible consequences of the amendment to the Capital Markets Law.

On November 16, 2016, the government submitted for consideration by Congress a bill proposing an amendment to the Capital Markets, Law No. 24,083 on Mutual Funds and Law No. 23,576 of Notes, among others. Currently, the Bank is analyzing with its legal advisors the impact that the new legislation could have on its business and on the Bank’s equity situation and we can make no assurances as to the effect on us. As of the date of this offering memorandum, the bill has not been approved by Congress.

Legislative elections may impact the current administration’s ability to implement economic reform.

The legislative elections will be held on October 22, 2017 could result in the Macri administration reducing its seats in the Congress. The impact that the results of this election will have on the implementation of President Macri’s legislative agenda cannot be predicted and the Macri administration’s ability to implement all announced measures cannot be assured. Measures that require Congress to pass new legislation will require support from opposition parties. A lack of political support that prevents the Macri administration from fully implementing its agenda may adversely affect the Argentine economy and financial condition and, therefore, our business, financial condition and results of operations.

Risks Relating to the Argentine Financial System

The short-term structure of the deposit base of the Argentine financial system, including ours, could lead to a reduction in liquidity levels and limit the long-term expansion of financial intermediation.

Following the Argentine crisis, the volume of deposits and loan originations were reduced significantly. Between 2003 and 2007 a gradual recovery of deposits took place. But because of the global financial crisis, these levels were reduced during 2008 but improved beginning in the second half of 2009 through 2016. Growth of new credit in the financial system depends on sustained deposit levels, due to the small size of Argentina’s capital markets and the absence in recent years of access to foreign capital and credit markets. In the medium term, the growth of credit will continue to depend on the growth in deposits. In the period 2011-2013, loans grew at a higher rate than deposits, fueled by excess liquidity of financial institutions. However, in 2014, this scenario started to change, and deposits started to grow at a faster rate than loans. During 2015, the liquidity of the Argentine financial system was adequate, due to the high level of mandatory deposit reserves and short-term investments of Argentine financial entities, which represented more than 50% of total deposits of the system. Moreover, restrictions on the purchase of foreign currency which were in place until December 2015, naturally reduced the volatility of local currency deposits. At present, because most deposits are short-term, a substantial part of loan portfolios are also composed of loans with short-term maturities, with low balances of loans with long-term maturities, such as mortgages. Although current liquidity levels are adequate, no assurance can be given that a future negative economic scenario would not adversely affect our business, financial condition and results of operations. Therefore, there is still a risk of low liquidity levels that could increase funding cost in the event of a withdrawal of significant deposit balance, and limit the long-term expansion of financial intermediation.

Future government policies may adversely affect the economy and the operations of financial institutions.

The government has historically exercised significant influence over the economy, and financial institutions, in particular, have operated in a highly regulated environment. We cannot assure that the laws and regulations currently governing the economy or the banking sector will remain unaltered in the future or that new laws will not adversely affect us. We cannot assure you that changes will not adversely affect our business, financial condition or results of operations and our ability to honor our debt obligations in foreign currency, including Notes we issue under the Program.

A significant reform of the Financial Institutions Law could substantially affect the Argentine financial system. Several proposals to reform the Financial Institutions Law have been presented to Congress. If any of these amendments or other modifications is enacted, our business, our financial position or the results of our operations may be adversely affected.

Moreover, in March 2012, Argentine Law No. 26,739 was enacted to amend the Central Bank's charter, the principal aspects of which were: (i) to broaden the scope of the Central Bank's mission (by establishing that it is responsible for financial stability and economic development while pursuing social equity); (ii) to change the obligation to maintain an equivalent ratio between the monetary base and the amount of international reserves; (iii) to establish that its board of directors will be responsible for determining the level of reserves required to guarantee normal operation of the foreign exchange market based on changes in external accounts; and (iv) to empower the Central Bank to regulate and provide guidance on credit through the financial system, to "promote investment in long-term production".

In addition, pursuant to Law No. 26,994, on October 1, 2014, Congress enacted the new Civil and Commercial Code (the "Civil and Commercial Code"), effective on August 1, 2015. The Civil and Commercial Code, among other things, modifies the applicable regime for contractual provisions relating to foreign currency payment obligations by establishing that such obligations may be discharged in pesos. This amends the prior legal framework pursuant to which Argentine debtors could only discharge their foreign currency payment obligations by making payment in the foreign currency specified in the agreement, although the obligor may waive its right to do so.

We are not able to ensure that any current or future laws and regulations (including, in particular, the amendment to the Financial Institutions Law and the amendment to the Central Bank's charter) will not result in significant costs to us, or will not otherwise have an adverse effect on our business, financial condition or results of operations.

Uncertainties derived from convergence of the applicable accounting framework towards IFRS accounting standards.

As a result of Central Bank requirements, commencing on January 1, 2018, we expect to be required to prepare our consolidated financial statements in accordance with IFRS with certain criteria of measurements and exposure specifically established by the Central Bank. Following our adoption of IFRS, our results of operations may differ significantly from results we have reported under Central Bank Accounting Rules. For a reconciliation of certain of our financial information as of June 30, 2017 from Argentine Banking GAAP to IFRS, see Note 3 to our unaudited consolidated financial statements as of and for the period ended June 30, 2017.

Accordingly, we are currently adapting our accounting systems to comport with requirements that will apply upon our adoption of IFRS accounting standards. Therefore, the items and figures contained in such Note 3 might change. If, by December 31, 2018, the standards in force change again, these items and figures would have to be restated as well.

These and other possible future regulatory measures may adversely affect our business and could generate uncertainty regarding our future financial position and results of operations.

The stability of the financial system depends upon the ability of financial institutions, including ours, to maintain and increase the confidence of depositors.

The measures implemented by the Argentine government in late 2001 and early 2002, in particular the restrictions imposed on depositors to withdraw money freely from banks and the "pesification" and restructuring of their deposits, were strongly opposed by depositors due to the resulting losses on their savings and undermined their

confidence in the Argentine financial system and in all financial institutions operating in Argentina. If depositors once again withdraw their money from banks in the future, there may be a substantial negative impact on the manner in which financial institutions, including ours, conduct their business, and on their ability to operate as financial intermediaries. Loss of confidence in the international financial markets may also adversely affect the confidence of Argentine depositors in local banks.

In the future, an adverse economic situation, even if it is not related to the financial system, could trigger a massive withdrawal of capital from local banks by depositors, as an alternative to protect the value of their assets. Any massive withdrawal of deposits would cause liquidity constraints in the financial sector and, consequently, a contraction in credit supply.

The occurrence of any of the above could have a material and adverse effect on our business, results of operations and financial condition.

The asset quality of financial institutions is exposed to the non-financial public sector's and Central Bank's indebtedness.

Financial institutions carry significant portfolios of bonds issued by the Argentine government and by provincial governments as well as loans granted to these governments. The exposure of the financial system to the non-financial public sector's indebtedness has been shrinking steadily, from 49.0% of total assets in 2002 to 10.3% in 2015, 9.2% in 2016 and 9.6% as of June 30, 2017. To an extent, the value of the assets held by Argentine banks, as well as their capacity to generate income, is dependent on the creditworthiness of the non-financial public sector, which is in turn tied to the federal government's ability to foster sustainable long-term growth, generate fiscal revenues and reduce public expenditure.

In addition, financial institutions carry securities issued by the Central Bank in their portfolios, which generally are short-term. As of June 30, 2017, such securities issued by the Central Bank represent 27.67% of the total assets of the Argentine financial system. As of June 30, 2017, our total exposure to the public sector was Ps.3,122.1 million, which represented 6.3% of our unconsolidated assets as of that date, and our exposure to securities issued by the Central Bank was Ps.3,306.8 million, which represented 6.7% of our assets as of June 30, 2017.

The Consumer Protection Law may limit some of the rights afforded to us.

Argentine Law No. 24,240, as amended and supplemented (the "Consumer Protection Law") sets forth a series of rules and principles designed to protect consumers, which include our customers. The Consumer Protection Law was amended by Law No. 26,361 of March 12, 2008 to expand its applicability and the penalties associated with violations thereof. Additionally, Law No. 25,065 (as amended by Law No. 26,010 and Law No. 26,361, the "Credit Card Law") also sets forth public policy regulations designed to protect credit card holders. In addition, with the enactment of Communication "A" 5388 of 2013, the Central Bank adopted a series of measures geared towards protecting financial services users.

The Civil and Commercial Code has a chapter on consumer protection, stressing that the rules governing consumer relations should be applied and interpreted in accordance with the principle of consumer protection and that a consumer contract should be interpreted in the sense most favorable to it. Moreover, the Civil and Commercial Code contains a specific chapter that regulates banking agreements.

The application of both the Consumer Protection Law and the Credit Card Law by administrative authorities and courts at the federal, provincial and municipal levels has increased. If we are held liable for violations of any of the provisions of the Consumer Protection Law or the Credit Card Law, the potential penalties could limit some of our rights, for example, with respect to our ability to collect payments due from services and financing provided by us, and adversely affect our results of operations. We cannot assure you that court and administrative rulings based on these regulations or measures adopted by the enforcement authorities will not provide additional consumer protections, or that they will not favor claims brought by consumer groups or associations. This may prevent or hinder our ability to enforce collections, which may have an adverse effect on our business and results of operations.

Class actions against financial institutions for unliquidated amounts may adversely affect the financial system's profitability.

Certain public and private organizations have initiated class action suits against financial institutions in Argentina, including ours. The Constitution and the Consumer Protection Law contain certain provisions regarding class actions but only limited guidance regarding procedural rules for trying class action claims. Nonetheless, Argentine courts have recognized class action claims in some cases, including various lawsuits brought against financial entities related to "collective interests" such as alleged overcharging on products, interest rates and related devices, in which claimants have sought the imposition of punitive damages and disgorgement of profits. If class action plaintiffs were to prevail against financial institutions, their success could have an adverse effect on the financial industry in general and on our business, financial condition and results of operations.

We operate in a highly regulated environment, and our operations are subject to regulations adopted, and measures taken, by several regulatory agencies.

Financial institutions are subject to a major number of regulations concerning functions historically determined by the Central Bank and other regulatory authorities. The Central Bank may penalize us in the event that we breach any applicable regulation. Similarly, the CNV, which authorizes securities offerings and regulates the capital markets in Argentina, has the authority to impose sanctions on us and our board of directors for breaches of corporate governance established in the capital markets laws and CNV Rules. The Financial Information Unit (*Unidad de Información Financiera*, or "UIF"), which is part of the Finance Ministry, regulates matters relating to the prevention of asset laundering and has the ability to monitor compliance with any such regulations by financial institutions and, eventually, impose sanctions.

We cannot assure you whether such regulatory authorities will commence proceedings against us, our shareholders or directors or penalize us. This notwithstanding, and in addition to "Know Your Customer" compliance, we have implemented other policies and procedures to comply with applicable rules and regulations. In addition to regulations specific to our industry, we are subject to a wide range of federal, provincial and municipal regulations and supervision generally applicable to businesses operating in Argentina, including those pertaining to labor, social security, public health, consumer protection, the environment, competition and price controls. We cannot assure you that existing or future legislation and regulation will not require material expenditures by us or otherwise have a material adverse effect on our consolidated operations.

A highly unpredictable regulatory framework could adversely affect Argentina's economy in general and the financial sector, including us.

From time to time, the Argentine government has enacted several laws amending the regulatory framework for financial institutions. In this regard, Communications "A" 5272 and 5827 of the Central Bank, dated February 1, 2012 and November 10, 2015, respectively, increased the capital requirements for financial institutions and raised minimum capital levels in order to support operational risks and the distribution of dividends, and an additional capital buffer equivalent to 75% of the total capital requirements. The Central Bank maintained that these capital requirements are necessary to comply with credit risk measures of Basel II.

Moreover, Congress amended the Central Bank's charter, among other measures, to allow use of the Central Bank's reserves for public debt service and the implementation of policies by the Central Bank to set interest rates, and terms of loans to financial institutions.

Other measures adopted by the Central Bank include the following:

- Communication "A" 5460 (October 1, 2013) granted broad consumer protections and regulated fees and commissions financial institutions might charge for services, requiring that fees and commissions represent a real, direct and demonstrable cost. Communication "A" 5514, modified by Communication "A" 5990, provided an exception for the enforcement of Communication "A" 5460, for credit agreements secured by a pledge of collateral that are entered into before September 30, 2013.
- Communication "A" 5536 (February 4, 2014) limited foreign currency positions of financial entities to 30% of stockholders' equity; which was modified by Communication "A" 5611 (August 4, 2014) to decrease such limit to 15%.
- Communication "A" 5590 (June 14, 2016) established that loan interest rates may not exceed the internal rate of return of *Letras del Banco Central* or Treasury Securities ("LEBAC") with a 90 days

maturity multiplied by a factor set between 1.25 and 2 depending on the type of loan and the type of financial institution.

- Communications “A” 5593 and “A” 5603 required financial institutions not subject to Central Bank regulation (savings and loans, mutual benefit associations, lenders, credit card issued by non-banking institutions and retail stores, etc.) to register with either the “Non-financial institutions issuers of credit and/or purchase cards” or “Other non-financial loan providers” and to apply an interest rate cap of 54% per annum (90-day LEBAC times 2) if they intend to source their funding requirements with borrowings from banks (loans or financial trusts). If they use other sources of funding or their own funds, no interest rate cap applies.
- Communication “A” 5627 (September 2014) established that a financial institution’s net foreign currency position cannot exceed 20% of its computable equity, compared to 30% previously. This measure applies to both liquid funds and dollar-denominated securities held by financial institutions.
- Communication “A” 5640 (October 6, 2014) set a minimum interest rate (which may not be lower than the reference lending interest rate multiplied by a predetermined coefficient for each term) for customer deposits in pesos for amounts within the limits covered by the Deposit Guarantee Fund (as defined below).
- Communication “A” 5641 (October 6, 2014) modified by Communications “A” 5659 and “A” 5943 increased to Ps.450,000 the guarantee amount for deposits covered by the Deposit Guarantee Fund and raised the contribution to such fund from 0.015% to 0.06% of the monthly average of daily balances over total deposits.
- Communication “A” 5689 (January 8, 2015) required that banks should record as “losses” in their financial statements all penalties imposed by any supervisory agencies, even if they have obtained court rulings suspending such payment. This requirement also applies to criminal charges in respect of which a first instance judgment has been rendered. Banks must record and provision 100% of the amount of such fines and disclose them in the notes to their financial statements.
- Communication “A” 5747 (April 24, 2015) extended the lines of credit protecting productive investment in Argentina. See “Argentine Banking System and Regulation”.
- Communication “A” 5781 (July 23, 2015) set a minimum interest rate ranging from 91% to 99% of the applicable LEBAC rate (as determined, depending on the term on which the relevant deposits were made) that banks must offer on deposits and the daily balance up to Ps.1,000,000.
- After multiple regulatory adjustments to the limits and methodology allowed to be used to calculate the net negative overall position of the institutions, the Central Bank issued Communication “A” 6233 (April 28, 2017, on effect since May 1, 2017), by which both the limit and the calculation for its determination were simplified by providing that such position – on average monthly of daily balances converted into pesos at the reference exchange rate – may not exceed 30% of the computable equity liability or own resources net of financial entities, both of the preceding month, whichever is less. Net equity is understood as the excess of computable equity liability in respect of fixed assets and other items, which are computable in accordance with the rules on “Ratio for immobilized assets and other items.”
- Communication “A” 5853 (December 2015) repealed all regulations imposing caps on interest rates charged on loans and paid on deposits were repealed. For operations settled after December 17, 2015, if the operations were fixed prior to that date, they are to be settled in accordance with the rules of Communication “A” 5849.
- Communication “A” 6212, (April 1, 2017) provided for gradual reduction of credit and debit card fees and capped commissions for credit card sales for 2017 at 2.0% and for 2018 at 1.85%, for 2019 at 1.65%, for 2020 at 1.50% and for 2021 and later at 1.30%. The commission for debit card sales for 2017 was capped at 1.0%, for 2018 at 0.90%, for 2019 at 0.80%, for 2020 at 0.70% and for 2021 and later at 0.60%.

The laws and regulations that currently govern the economy and the financial sector have changed constantly in recent years and may continue to change in the future. We cannot give any assurance that future changes in the regulations and the policies of the Argentine government will not adversely affect financial institutions in Argentina, including us, our business, financial condition, our results of operations or our ability to service foreign debt denominated in foreign currency. A non-stable regulatory framework would impose significant limitations on the activities of the financial system, including ours, and it would give rise to uncertainty in regards to our future financial condition and the result of our operations.

If Argentina's implementation of laws relating to anti-money laundering and to combating the financing of terrorism (AML/CRT) are insufficient, Argentina may have difficulties in obtaining international financing and/or attracting foreign direct investments.

In October 2010, the Financial Action Task Force ("FATF") issued a Mutual Evaluation Report (the "Mutual Report") on Anti-Money Laundering and Combating the Financing of Terrorism in Argentina, including the evaluation of Argentina as of the time of the on-site visit which took place in November 2009. This report stated that since the latest evaluation, finalized in June 2004, Argentina had not made adequate progress in addressing a number of deficiencies identified at the time, and the FATF has since placed Argentina on an enhanced monitoring process.

Moreover, in February 2011, Argentina, represented by the Minister of Justice, attended the FATF Plenary, in Paris, in order to present a preliminary action plan. FATF granted an extension to implement changes. In June 2011, Argentina made a high-level political commitment to work with the FATF to address its strategic AML/CFT deficiencies. In compliance with recommendations made by the FATF on money laundering prevention, on June 1, 2011 the Congress enacted Law No. 26,683. Under this law, money laundering is now a crime per se, and self-laundering money is also considered a crime. Additionally, in June 2012, the Plenary meeting of the FATF held in Rome highlighted the progress made by Argentina but also urged the country to make further progress regarding its AML/CFT deficiencies.

Notwithstanding the improvements that Argentina made, in October 2012 the FATF determined that certain strategic AML/CFT deficiencies continued, and that Argentina would be subject to continued monitoring.

Since October 2013, Argentina has taken steps towards improving its AML/CFT regime, including issuing new regulations to strengthen suspicious transaction reporting requirements and expanding the powers of the financial sector regulator to apply sanctions for AML/CFT deficiencies. Such progress has been recognized by the FATF. In this regard, the FATF (pursuant to its report dated June 27, 2014) found that Argentina had made significant progress in adopting measures to address AML/CFT deficiencies identified in the Mutual Report, and that Argentina had strengthened its legal and regulatory framework, including (i) reforming and strengthening penalties for money laundering by enhancing the scope of reporting parties covered and transferring AML/CFT supervision to the UIF; (ii) enhancing terrorist financing penalties, in particular by criminalizing the financing of terrorist acts, terrorists, and terrorist organizations; (iii) issuing, through the UIF, a series of resolutions concerning customer due diligence (CDD) and record-keeping requirements as well as other AML/CFT measures to be taken by reporting parties; and (iv) creating a framework to comply with United Nations Security Council Resolutions 1267 and 1373. As a result of such progress, the FATF Plenary concluded that Argentina had taken sufficient steps toward technical compliance with the core and key recommendations and should thus be removed from the monitoring process. In addition, on October 24, 2014, the FATF welcomed Argentina's significant progress in improving its AML/CFT regime and noted that Argentina had established the legal and regulatory framework to meet commitments in its action plan and would no longer be subject to the FATF's AML/CFT compliance monitoring process, and that Argentina would continue to work with the FATF and the Financial Action Task Force of Latin America (*Grupo de Acción Financiera de América del Sur*, or "GAFISUD") to address any other issues identified in its Mutual Report.

In February 2016, the "National Coordination Program for the Prevention of Asset Laundering and the Financing of Terrorism" was created by Executive Decree No. 360/2016 as an instrument of the Ministry of Justice and Human Rights, charged with the duty to reorganize, coordinate and strengthen the national system for the prevention of money laundering and the financing of terrorism, taking into consideration the specific risks that might impact Argentina and the global emphasis on developing more effective compliance with international regulations and the standards of the FATF. In addition, relevant rules were modified to designate the Ministry of Justice and Human Rights as the coordinator at the national level of public and private agencies and entities, while the UIF coordinate activities that relate to financial matters.

Recently, in the context of the voluntary disclosure program under the Argentine tax amnesty, Law No. 27,260 and its regulatory decree No. 895/2016 clarified that the UIF has the power to communicate information to other public agencies that deal with intelligence and investigations if the UIF is in possession of evidence that crimes under the Anti-Money Laundering Law may have been committed. In addition, pursuant to the UIF Resolution No. 92/2016, reporting agents must adopt special risk management system to address the complying with the law as well as to report operations carried out under the tax amnesty.

Although Argentina has made significant improvements in its AML/CFT regulations, and is no longer subject to the FATF's on-going global AML/CFT compliance process, no assurance can be given that Argentina will continue to comply with AML/CFT international standards, or that Argentina will not be subject to compliance monitoring in the future, any of which could adversely affect Argentina's ability to obtain financing from international markets and attract foreign investments.

Risks Relating to Our Business

The quality of our loan portfolio could be impaired if the Argentine private sector continues to be affected in the event of a decrease in the level of activity.

Our loan portfolio is concentrated in recession-sensitive segments and it is to a large extent dependent upon local and international economic conditions. This in turn might affect the creditworthiness of our loan portfolio and our results of operations.

Increased competition and merger activity in the Argentine banking industry may adversely affect us.

We foresee increased competition in the banking sector. If the trend towards decreasing spreads is not offset by an increase in lending volumes, the ensuing losses could lead to mergers in the industry. These mergers could lead to the establishment of larger, stronger banks with more resources than us. Therefore, although the demand for financial products and services in the market continues to grow, competition may adversely affect our results of operations, shrinking spreads and commissions. For more information, see "The Argentine Banking Industry".

Reduced spreads between interest rates received on loans and those paid on deposits without corresponding increases in lending volumes could adversely affect our profitability.

The spread for Argentina's financial system between the interest rates on loans and deposits could be affected as a result of increased competition in the banking sector and the government's tightening of monetary policy in response to inflation concerns. Since 2009, the interest rate spreads throughout the Argentine financial system have generally increased. This increase was sustained by a steady demand for consumer loans in recent years. In 2013 and 2014, borrowing and lending rates increased significantly. However, the net interest margin of the financial system remained stable due to a substantial growth both in the loan and deposit portfolios.

In June 2014, the Central Bank established a system of maximum active benchmark rates for consumer loans and secured loans and additionally, in October 2014, established a new mechanism of regulation by setting a minimum deposit rate for certain deposits of natural persons. As of December 17, 2015, these limits were eliminated by the Macri administration.

We cannot guarantee that interest rate spreads will remain stable unless increases in lending or additional cost-cutting takes place. A reversal of this trend, or a new regulation imposing maximum active benchmark rates, could adversely affect our profitability.

The Central Bank may have objections to our ownership stake in our insurance business.

On December 2, 2015, we were notified of an objection raised by the Central Bank's Financial Superintendency with respect to our direct and indirect ownership stakes in BHN Vida and BHN Seguros Generales, alleging the application of rules of *graduación de crédito* that impose a 12.5% limit on our ownership of capital stock and voting rights of other companies. We responded that such objection should be reviewed, because we, as the successor company of Banco Hipotecario Nacional, are authorized to engage in the insurance business, pursuant to Privatization Law No. 24,855 (the "Privatization Law") and regulations thereunder, specifically Decree No. 1394/98. As of June 30, 2017, we have exchanged correspondence with the Central Bank on the matter, and a final decision is still pending review by the highest authority of the entity. We believe that we have sound arguments to rebut the Central Bank's objection and intend to exhaust all applicable administrative and judicial remedies, if an unfavorable decision were to be rendered, our results of operations would be adversely affected.

Differences in the accounting standards between Argentina and certain countries with developed capital markets, such as the United States, may make it difficult to compare our financial statements and those prepared by companies from these other countries.

Publicly available information about us in Argentina is presented differently from the information available for registered public companies in certain countries with highly developed capital markets, such as the United States. Except as otherwise described herein, we prepare our financial statements in accordance with Central Bank Accounting Rules, which differs in certain significant respects from Argentine GAAP and from IFRS. As a result, our financial statements and reported earnings are not directly comparable to those of banks in the United States. See “Annex I – Summary of Significant Differences Between Central Bank Accounting Rules and IFRS” for a description of the principal differences between Central Bank Accounting Rules and IFRS and how they may affect our financial statements. We have begun to take measures designed to ensure compliance with the requirements for convergence to IFRS accounting standards in accordance with the Central Bank Accounting Rules. See “Summary Financial and Other Information” and Note 3 “Reconciliation of balances to the applicable accounting framework for convergence towards the IFRS” of our Unaudited Financial Statements for the six-month period ended on June 30, 2017, for a description of the IFRS convergence regime in accordance with the Central Bank Accounting Rules.

Given the potential mismatch between assets and liabilities in terms of foreign currency, we may have significant foreign currency exposure.

As of June 30, 2017, our foreign currency-denominated assets exceeded our foreign currency-denominated liabilities by Ps.1,324.4 million (taking into account purchases and forward sales valued at market price). In order to hedge such exposure, we maintain locally traded foreign currency futures. Any potential mismatch could leave us exposed to the risk of volatility in the exchange rate of pesos to such foreign currencies which could adversely affect our financial results. For example, a reduction of our ability to maintain an adequate position in foreign currency futures due to regulatory changes or to market conditions, may increase the potential mismatch and thereby our foreign currency exposure.

The growth of our loan portfolio may expose us to increased loan losses.

During the period from December 31, 2013 to June 30, 2017, our aggregate loan portfolio to the non-financial private sector and foreign residents grew 142.2% from Ps.12,928.6 million at December 31, 2013 to Ps.31,316.1 million at June 30, 2017. During that period, our commercial loan portfolio grew 150.2% from Ps.3,578.6 million to Ps.8,955.1 million and our consumer loan portfolio grew 170.7% from Ps.7,003.9 million to Ps.18,962.4 million. The continued growth of our loan portfolio (particularly commercial and consumer loans) may expose us to higher levels of loan losses and require us to establish higher provisions for loan losses, particularly to borrowers in certain riskier industries.

Our exposure to individual borrowers could lead to higher levels of past due loans, allowances for loan losses and charge-offs.

A substantial portion of our loan portfolio consists of loans to individual customers in the lower-middle to middle income segments of the Argentine population. As of June 30, 2017, the portfolio of our loans to individuals represented 61.6% of our total loan portfolio. In addition, important features of our strategy are to increase lending and the provision of other services to, and gain new customers in, these consumer segments. The quality of our portfolio of loans to individuals is dependent to a significant extent on economic conditions prevailing from time to time in Argentina. Lower-middle to middle income individuals are more likely to be exposed to and adversely affected by adverse developments in the Argentine economy than corporations and high-income individuals. As a result, lending to these segments represents a higher degree of risk than lending to such other market segments. Consequently, we may experience higher levels of past due amounts, which could result in higher provisions for loan losses. Therefore, there can be no assurance that the levels of past due amounts and subsequent charge-offs will not be materially higher in the future.

Our subsidiary Tarshop has had negative results and is in the process of readjusting its operations.

Tarshop has had losses in each of 2014, 2015 and 2016 of Ps.111.0 million, Ps.70.4 million and Ps.4.1 million, respectively, and of Ps.65.8 million and Ps.95.9 million, for the six-month periods ended June 30, 2016 and June 30, 2017, respectively. Tarshop’s assets amounted to Ps.1,545.5 million, Ps.3,317.6 million and Ps.5,341.8 million, for the years 2014, 2015 and 2016, respectively, and Ps.4,562.8 million and Ps.5,885.1 million, for the six-month periods ended June 30, 2016 and June 30, 2017, respectively. Tarshop’s shareholders’ equity was Ps.188.8

million, Ps.223.4 million and Ps.469.3 million, for the same annual periods, respectively, and Ps.377.5 million and Ps.403.5 million, respectively, for the referenced six-month periods.

Tarshop is in the process of readjusting its business and operations, having added, among others, the commercialization of the “Tarjeta Visa Tarshop” to its set of financial products and granted personal loans since June 2016. Since 2016, Tarshop has carried out a program of reduction of expenses and corporate reorganization, which has resulted in a significant reduction in administrative expenses.

In order that Tarshop will have sufficient resources to continue its activities and develop its business plan, we (owner of 80% of Tarshop’s share capital) and IRSA Propiedades Comerciales S.A. (which owns 20%) made pro-rata capital contributions of Ps.110 million, Ps.105 million and Ps.250 million during 2014, 2015 and 2016, respectively.

Despite the measures adopted to mitigate the negative results of Tarshop, we cannot predict what impact they will have on the results of Tarshop and, in turn, on our financial condition and results of operations. The failure of these measures could expose us to reputational risk.

Our role as trustee of the Programa de Crédito Argentino del Bicentenario para la Vivienda Única Familiar (“PROCREAR”) could expose us to reputational risk.

We currently act as trustee of the PROCREAR Trust, which aims to facilitate access to housing solutions by providing mortgage loans for construction and developing housing complexes across Argentina. Under the terms and conditions of the PROCREAR Trust, all the duties and obligations under the trust are the legal responsibility of the trust estate. Notwithstanding the foregoing, if the PROCREAR Trust were to fail to fulfil its obligations in the future, our reputation could be adversely affected.

Modifications to the policies of the PROCREAR Trust could occur.

The Macri administration is currently reviewing policies related to the granting of mortgage loans to generate new credit alternatives. As a consequence of such review, the government made modifications in the PROCREAR Trust through Decree N°146 / 2017 (March 7, 2017), to improve its implementation by transferring oversight of the program from ANSES to the Ministry of the Interior, Public Works and Housing. These modifications will impact the way the PROCREAR Trust operates.

In connection with the review of policies discussed above, the Argentine government approved a new program called “Procrear Solución Casa Propia”, which is designed to allow thousands of families to access their first home. Eligible families are selected through an objective scoring system intended to prioritize the neediest families, based on their socio-economic status (using parameters such as number of minor dependent children, disability, flooding, and others). This program combines a mortgage loan from the financial system adjusted by the CER, a percentage of household savings and a subsidy from the federal government, through PROCREAR. Since the PROCREAR Trust is expected to receive additional contributions to fund the new subsidy program, the performance of the PROCREAR Trust should not be affected. However, we cannot guarantee that the program will be developed in the same way in the future or whether further amendments will be made. For more information, see “Business—Lines of Business—Trustee Services for PROCREAR Trust”.

The Argentine government might prevail at our general shareholders’ meetings.

By virtue of the Privatization Law there are no restrictions on the Argentine government’s ability to dispose of its Class A shares and all those shares minus one could be sold to third parties through public offering. Our bylaws set forth that if at any time Class A shares were to represent less than 42% of our shares with right to vote, Class D shares automatically lose their triple vote right, which could result in the main shareholders losing control. Should any such situation materialize and should the Argentine government retain a sufficient number of Class A shares, the Argentine government could prevail at shareholders’ meetings (except for some decisions that call for qualified majorities) and could thus exert actual control on the decisions that must be submitted to consideration by the shareholders’ meeting.

In the future, we might consider new business opportunities that could turn out to be unsuccessful.

In recent years we have considered some business acquisitions or combinations and we plan to continue considering acquisitions that offer appealing opportunities and that are in line with our commercial strategy. However, we cannot assure you that such businesses could deliver sustainable outcomes or that we will be able to consummate the acquisition of financial institutions in favorable conditions. Additionally, our ability to obtain the

desired outcome as a result of said acquisitions will be partly dependent upon our ability to follow through with the successful integration of the businesses. To integrate any acquired business entails major risks, including unforeseen difficulties in integrating operations and systems; problems inherent in assimilating or retaining the target's employees; challenges associated with keeping the target's customers; unforeseen liabilities or contingencies associated with the target; and the likelihood of management having to take time and attention out of the business's day-to-day to focus on the integration activities and the resolution of associated problems.

We may incur losses associated with counterparty exposure.

We may incur losses if any of our counterparties fails to meet its contractual obligations, due to bankruptcy, lack of liquidity, operational failure or other reasons attributable to that counterparty. This counterparty risk may arise, for example, from our entering into reinsurance agreements or credit agreements pursuant to which counterparties have obligations to make payments to us and are unable to do so, carrying out transactions in the foreign currency market (or other markets) that fail to be settled at the specified time due to non-delivery by the counterparty, clearing house or other financial intermediaries. We may transact with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, and their failure to meet their contractual obligations may adversely affect us.

Our ability to generate cash depends on many factors beyond our control, and we may not be able to generate cash required to service our debt.

Our ability to make scheduled payments on the Notes and to meet our other debt service obligations or to refinance our debt depends on our future operating and financial performance and our ability to generate cash. This will be affected by our ability to implement successfully our business strategy, as well as general economic, financial, competitive, regulatory, technical and other factors beyond our control. If we cannot generate sufficient cash to meet our debt service obligations or fund our other business needs, we may, among other things, need to refinance all or a portion of our debt, including the Notes, obtain additional financing, delay capital expenditures or sell assets.

We may not be able to generate sufficient cash through any of the foregoing ways. If we are not able to refinance any of our debt, obtain additional financing or sell assets on commercially favorable terms or at all, we may not be able to satisfy our obligations with respect to our debt, including the Notes. If this were to occur, holders of the relevant debt would be able to declare the full amount of that debt due and payable. Our assets may not be sufficient to pay such amounts.

If we fail to comply with all applicable banking and securities laws and regulations or detect money laundering and other illegal or inappropriate activities in a comprehensive or timely manner, our business interests and reputation may be harmed.

We are required to comply with all applicable banking and securities laws and regulations in effect in Argentina. In recent years, the Argentine government and relevant governmental agencies have modified policies and mechanisms of control over financial activity, as well as the parameters surrounding monetary and disciplinary penalties that may affect our results of operations and financial condition as well as our reputation.

For example, on November 29, 2012, the Argentine Congress adopted the Capital Markets Law, which modified the public offer regime set forth by Law No. 17,811, as amended. One of the most significant amendments introduced by such law refers to the powers of the CNV. The incorporation of Section 20 raises concerns among listed companies since it empowers the CNV to (i) appoint supervisors with powers of veto over resolutions adopted by a company's board of directors and (ii) disqualify a company's board of directors for a period of 180 days when, as determined by the CNV, the interests of the minority shareholders and/or security holders are infringed. In addition, pursuant to section 51 of the Capital Markets Law, the CNV may suspend registered broker dealers on a preventive basis, as occurred during the first quarter of 2015 to several financial system entities.

In addition, anti-money laundering laws and regulations require, among other things, that we adopt and implement control policies and procedures which involve "know your customer" principles and reporting of suspicious or unusual transactions to the applicable regulatory authorities. While we have adopted policies and procedures intended to detect and prevent the use of our network for money laundering activities and by terrorists, terrorist organizations and other types of organizations, those policies and procedures may fail to fully eliminate the risk that we have been or are currently being used by other parties, without our knowledge, to engage in activities related to money laundering or other illegal activities.

If we fail to comply with banking and securities laws and regulations or we do not detect illegal activities, the relevant governmental agencies (including the Central Bank, the CNV and the UIF) are authorized and empowered to impose fines, suspensions and other penalties. Specifically, in accordance with Communication “A” 5785 (as amended), the sanctions imposed or other enforcement actions taken by the Central Bank, the UIF, the CNV and / or the Superintendency of National Insurance may lead to the revocation of authorizations granted if the Central Bank concludes that there have been fundamental changes in the conditions necessary to maintain such authorization, including changes in suitability, experience, moral probity (of directors, councilors or equivalent authorities), governance (by shareholders, partners or equivalents), audit (by trustees and members of the supervisory board or equivalent) and integrity (of other individuals, such as managers).

If any governmental agencies determine to impose penalties on us for any failure to comply with such regulations, our business, financial condition and results of operations, and our reputation will be adversely affected.

The effects of legislation that restricts our ability to pursue mortgage foreclosure proceedings could adversely affect us.

Our ability to pursue foreclosure proceedings through completion, in order to recover on defaulted mortgage loans, has an impact on our activities. On December 13, 2006, pursuant to Law No. 26,177, the “Restructuring Unit Law” was created to allow all mortgage loans to be restructured between debtors and the former Banco Hipotecario Nacional, insofar as such mortgages had been granted prior to the effectiveness of the Convertibility Law.

Law No. 26,313, the “Pre-convertibility Mortgage Loans Restructuring Law,” was enacted by the Argentine Congress on November 21, 2007 and partially signed into law on December 6, 2007 to establish the procedure to be followed in the restructuring of mortgage loans within the scope of Section 23 of the Mortgage Refinancing System Law in accordance with the guidelines established by the Restructuring Unit Law. To this end, a recalculation was established for certain mortgage loans originated by the former Banco Hipotecario Nacional before April 1, 1991.

Executive Branch Decree No. 2107/08 issued on December 19, 2008 regulated the Pre-convertibility Mortgage Loans Restructuring Law and established that the recalculation of the debt applies to the individual mortgage loans from global operations in effect on December 31, 2008 and agreed upon prior to April 1, 1991, and in arrears at least since November 2007 and remaining in arrears on December 31, 2008. In turn, the Executive Branch Decree No. 1366/10, published on September 21, 2010, expanded the universe of Pre-convertibility loans subject to restructuring to include the individual mortgage loans not originating in global operations insofar as they met the other requirements imposed by Executive Branch Decree No. 2107/08. In addition, Law No. 26,313 and its regulatory decrees also condoned the debts on mortgage loans granted before the Convertibility Law in so far as they had been granted to deal with emergency situations and in so far as they met the arrears requirement imposed on the loans subject to recalculation.

Subject to the Central Bank’s supervision, we have implemented the recalculation of mortgage loans within the scope of the aforementioned rules by adjusting the value of the new installments to a maximum amount not in excess of 20% of household income. In this respect, we estimate that it has sufficient loan loss provisions to face any adverse economic impact on the portfolio involved.

We cannot assure you that the Argentine government will not enact new additional laws restricting our ability to enforce our rights as a creditor and/or imposing a condition or a reduction of principal on the amounts unpaid in our mortgage loan portfolio. Any such circumstance might have a significant adverse effect on our financial condition and results of our operations.

Our estimates and established reserves for credit risk and potential credit losses may prove to be inaccurate and/or insufficient, which may materially and adversely affect our financial condition and results of operations.

A number of our products expose us to credit risk, including consumer loans, commercial loans and other receivables. Changes in the income levels of our borrowers, increases in the inflation rate or an increase in interest rates could have a negative effect on the quality of our loan portfolio, causing us to increase provisions for loan losses and resulting in reduced profits or in losses.

We estimate and establish reserves for credit risk and potential credit losses. This process involves subjective and complex judgments, including projections of economic conditions and assumptions on the ability of

our borrowers to repay their loans. We may not be able to timely detect these risks before they occur, or due to limited resources or available tools, our employees may not be able to effectively implement our credit risk management system, which may increase our exposure to credit risk.

If we are unable to effectively control the level of non-performing or poor credit quality loans in the future, or if our loan loss reserves are insufficient to cover future loan losses, our financial condition and results of operations may be materially and adversely affected.

Certain proposed changes in law could have an impact on the services and commissions charged by financial institutions.

The Bank receives income from commissions charged to merchants in relation to transactions made on credit cards. A change in the applicable legislation that stipulates a limit on commissions that financial institutions may charge traders could reduce the Bank's income. On September 8, 2016, congressional approval was given to a standard that proposes to reduce commissions charged to merchants on credit sales from 3% to 1.5%, and on debit card sales from 1.5 % to 0.5%. Although this bill remains pending, on March 31, 2017, the Central Bank issued Communication "A" 6212, providing for gradual reduction of credit and debit card fees and capping commissions for credit card sales. For more information see "— Risks Relating to the Argentine Financial System—A highly unpredictable regulatory framework could adversely affect Argentina's economy in general and the financial sector, including us".

The application of the limits established by the Central Bank and any additional reduction in commissions for credit and debit card sales could negatively affect our profitability, financial condition and results of operations.

Changes in market conditions, and any risks associated therewith, could materially and adversely affect our financial condition and results of operations.

We are directly and indirectly affected by changes in market conditions. Market risk, or the risk that values of assets and liabilities or revenues will be adversely affected by variation in market conditions, is inherent in the products and instruments associated with our operations, including loans, deposits, securities, bonds, long-term debt and short-term borrowings. Changes in market conditions that may affect our financial condition and results of operations include fluctuations in interest and currency exchange rates, securities prices, changes in the implied volatility of interest rates and foreign exchange rates, among others.

Cybersecurity breaches could negatively affect our reputation, financial condition and results of operations.

We have access to large amounts of confidential financial information and control substantial financial assets belonging to our customers as well as to us. In addition, we provide our customers with continuous remote access to their accounts and the possibility of transferring substantial financial assets by electronic means. Accordingly, cybersecurity is a material risk for us. Cybersecurity incidents, such as computer break-ins, phishing, identity theft and other disruptions could negatively affect the security of information stored in and transmitted through our computer systems and network infrastructure and may cause existing and potential customers to refrain from doing business with us.

In addition, contingency plans in place may not be sufficient to cover liabilities associated with any such events and, therefore, applicable insurance coverage may be deemed inadequate, preventing us from receiving full compensation for the losses sustained as a result of such a disruption.

Although we intend to continue to implement security technology devices and establish operational procedures to prevent such damage, we cannot assure you that all of our systems are entirely free from vulnerability and these security measures will be successful. If any of these events occur, it could damage our reputation, entail serious costs and affect our transactions, as well as our results of operations and financial condition.

A disruption or failure in any of our information technology systems could adversely affect our business.

We depend on the efficient and uninterrupted operation of internet-based data processing, communication and information exchange platforms and networks, including those systems related to the operation of our ATM network. Our operations depend on our ability to manage our information technology systems and communications efficiently and without interruption. Our communications, systems or transactions could be harmed or disrupted by fire, floods, power failures, defective telecommunications, computer viruses, electronic or physical theft and similar

events or disruptions. In addition, our information technology systems and operations may suffer if its suppliers do not meet the delivery of products in a timely manner or decide to end the relationship with us.

Any of the foregoing events may cause disruptions in our information technology systems, delays and the loss of critical data, and could prevent us from operating at optimal levels. In addition, the contingency plans in place may not be sufficient to cover all those events and, therefore, this may mean that the applicable insurance coverage is limited or inadequate, preventing us from receiving full compensation for the losses sustained as a result of such a disruption. Also, our recovery of losses plan may not be enough to prevent damage resulting from all the cases and our insurance coverage could be inadequate to cover losses from interruptions. If any of these assumptions occur our reputation, business, results of operations and financial condition could be adversely affected.

Risks not contemplated in our insurance policies may materially adversely affect us.

We maintain insurance in amounts that we believe are adequate to cover risks related to our operations. However, it is possible that the terms and conditions of our insurance policies may not cover a specific event or incident or may cover only part of the losses that we may incur. If any uninsured events occur with respect to a significant portion of our operations, or we must pay high deductibles as part of that coverage, those events could have a material adverse effect on our financial conditions and results of operations. Additionally, if we are unable to renew our insurance policies from time to time or losses or other liabilities occur that are not covered by insurance or that exceed our insurance limits, we could be subject to significant unexpected additional costs which could materially adversely affect us.

We are subject to litigation and other legal, administrative and regulatory proceedings.

We are regularly party to litigation and other legal proceedings relating to claims resulting from our operations in the normal course of business. See “Business—Litigation”. Litigation is subject to inherent uncertainties, and unfavorable rulings may occur. Furthermore, our business and activities occur in a heavily regulated sector and uncertainty about the evolution of the regulatory regime may lead to material compliance costs and subject us to regulatory enforcement actions, fines and penalties.

We cannot assure you that the current proceedings or other legal, administrative and regulatory proceedings will not materially and adversely affect our ability to conduct our business in the manner that we expect or otherwise adversely affect our results of operations and financial position should an unfavorable ruling occur. Although we intend to defend our positions vigorously when procedures are brought or fines are imposed by authorities, there can be no assurance that we will be successful in such defense. Accordingly, we may in the future be required to pay fines and assessments that could be significant in amount, which could materially adversely affect us.

The Argentine government might prevail at our general shareholders’ meetings.

By virtue of Law No. 23,696 (the “Privatization Law”) there are no restrictions on the Argentine government’s ability to dispose of its Class A shares and all those shares minus one could be sold to third parties through public offering. Our bylaws set forth that if at any time Class A shares were to represent less than 42% of our shares with right to vote, Class D shares automatically lose their triple vote right, which could result in our principal shareholders losing control of the Bank. Should any such situation materialize and if the Argentine government retains a sufficient number of Class A shares, the Argentine government could prevail at shareholders’ meetings (except for some decisions that call for qualified majorities) and could thus exert effective or actual control on the decisions that must be submitted to consideration at any meeting of our shareholders.

We are affected by decisions made by our management as well as shareholders’ decisions and, in making such decisions, these interests may not be aligned with those of the holders of Notes offered hereby.

We could be affected by a number of decisions, including management decisions taken by us as well as decisions made by our shareholders pursuant to the Argentine Companies Law. We have no obligation to consider the interests of the holders of the Notes offered hereby (or any other series of our indebtedness that may be outstanding) in connection with our overall strategic decisions. In addition, holders of the Notes may not have any claim against us or our shareholders relating to decisions that affect the business and operations of us.

Risks Relating to the Notes

In the event of our insolvency, the Notes will rank junior to claims from depositors and other privileged creditors.

The Financial Institutions Law, as amended, provides that in the event of our bankruptcy or liquidation, all depositors, whether individuals or legal entities, and whichever the type, amount or currency of their deposits, will have general and absolute priority over any other of our creditors, including the holders of the Notes, except for labor creditors, creditors secured by a pledge or mortgage, or facilities granted by the Central Bank or by the Argentine bank liquidity fund (as defined on the Decree 32/2001) and secured by a pledge or mortgage collateral, to be paid with 100% of the proceeds of the liquidation of our assets. Holders of any deposits have special priority rights with respect to our remaining creditors, including the holders of the Notes, except with respect to labor claims and claims secured by a pledge or mortgage, to be paid out of (i) our funds held in reserves by the Central Bank; (ii) other funds existing at the date when our authorization is revoked; or (iii) the proceeds of the mandatory transfer of our assets as determined by the Central Bank, in the following order of priority: (a) deposits of up to Ps.50,000 per person or corporation (considering all amounts of such person/corporation deposited in one financial institution) or its equivalent amount in foreign currency, with priority right granted to one person per deposit (in the case of more than one account holder, the amount is pro-rated among such account holders); (b) any deposits greater than Ps.50,000 or its equivalent in foreign currency, for the amounts exceeding such sum; and (c) liabilities derived from credit facilities granted to us, which directly affect international trade. Under section 53 of the Financial Institutions Law, any claims of the Central Bank will have priority over any other creditors including the holders of the Notes, except for creditors secured by a pledge or mortgage, certain labor creditors and depositors (in the terms set forth above), facilities granted pursuant to the Central Bank's charter (rediscounts granted to financial entities in the event of a temporary lack of liquidity, advances to financial entities under a bond, bond assignment, pledge or special assignment of certain assets), and facilities granted by the Argentine bank liquidity fund and secured by a pledge or mortgage collateral.

As a financial institution, any insolvency proceeding against us would be subject to intervention by the Central Bank, which may limit remedies otherwise available and delay noteholder recoveries in respect of their claims.

If we become insolvent, we would not automatically be subject to insolvency proceedings under Law No. 24,522 (the "Argentine Bankruptcy Law"). Instead, we would be subject to a prior administrative proceeding in accordance with the Financial Institutions Law, pursuant to which the Central Bank would typically intervene by appointing a reviewer, requiring that we file a reorganization plan, transferring certain of our assets and liabilities and possibly suspending or revoking our banking license. Only upon the revocation of our banking license may we be subject to a bankruptcy proceeding and/or judicial liquidation pursuant to Argentine Bankruptcy Law. Consequently, noteholders will receive the amounts of their claims after a longer period of time than they would under a normal bankruptcy proceeding in Argentina (other than a financial institution's bankruptcy proceeding) or the United States.

The Notes will be unsecured and effectively subordinated to our secured indebtedness.

The Notes will not be secured by any of our assets. Pursuant to the indenture or agency agreement, if any, governing the Notes, we are permitted to incur a substantial amount of additional secured indebtedness, and there is no limit on the amount of secured indebtedness that our subsidiaries may incur. Holders of our secured debt will have claims that are effectively senior to your claims as holders of the Notes, to the extent of the value of the assets securing the secured debt.

If we become insolvent or are liquidated, or if payment under any secured debt is accelerated, the lenders thereunder would be entitled to exercise the remedies available to a secured lender. Accordingly, the lender will have priority over any claim for payment under the Notes to the extent of the value of the assets that constitute its collateral. If this were to occur, it is possible that there would be no assets remaining from which claims of the holders of the Notes could be satisfied. Further, if any assets did remain after payment of these lenders, the remaining assets would be available to creditors preferred by statute and might be insufficient to satisfy the claims of the holders of the Notes and holders of other unsecured debt including trade creditors that rank equal to holders of the Notes.

In addition, our creditors may hold negotiable instruments or other instruments governed by local law that grant rights to attach our assets at the inception of judicial proceedings in the relevant jurisdiction, which attachment is likely to result in priorities benefitting those creditors when compared to the rights of holders of the Notes.

An active trading market for the Notes may not develop.

The Notes under this program are new securities for which there is currently no active trading market. We may apply to have the Notes of a series listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and on the BYMA and to have the Notes accepted for trading in the MAE, but we cannot assure you that any such applications, if made, would be approved.

Moreover, we may not list the Notes of a series on any securities exchange or quotation system. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and our financial performance.

There can be no assurance that an active trading market for the Notes of any series will develop, or, if one does develop, that it will be maintained. If a trading market does not develop or is not maintained, holders of the Notes may experience difficulty in reselling the Notes or may be unable to sell them at an attractive price or at all. Further, even if a market develops, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors; therefore, a market for the Notes may develop though it may not be liquid. Moreover, if the Notes are traded, they may trade at a discount from their initial offering price depending upon prevailing interest rates, the market for similar securities, general economic conditions, our performance and business prospects and other factors.

Exchange controls and restrictions on transfers abroad, if re-imposed, may impair your ability to receive payments on the Notes.

In 2001 and 2002, Argentina imposed exchange controls and transfer restrictions, substantially limiting the ability of companies to retain foreign currency or make payments abroad. These restrictions were in force until December 2015 when they began to be substantially repealed. Towards the end of 2016, the remaining restrictions that impeded free access to the TIULC were repealed. Notwithstanding the free accessibility that exists today in the TIULC, the Argentine government may in the future impose additional controls on the foreign exchange market and on capital flows out of and into Argentina in response to capital flight or depreciation of the peso. These restrictions may have a negative effect on the economy and on our business and potentially therefore on your ability to receive payments due on the Notes if imposed in an economic environment where access to local capital is constrained. For more information, see “Exchange Rates and Exchange Controls”.

The Notes will be subject to transfer restrictions which could limit your ability to resell your Notes.

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be altered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Such exemptions include offers and sales that occur outside the United States in compliance with Regulation S and in accordance with any applicable securities laws of any other jurisdiction and sales to qualified institutional buyers as defined under Rule 144A. For a discussion of certain restrictions on resale and transfer, see “Subscription and Sale” and “Transfer Restrictions”. Consequently, a holder of Notes must be able to bear the economic risk of its investment in the Notes for the term of the Notes.

Developments in other countries may adversely affect the market value of the Notes.

The market price of the Notes may be adversely affected by developments in the international financial markets and world economic conditions. Argentine securities markets are influenced, to varying degrees, by economic and market conditions in other countries, especially those in Latin America and other emerging and frontier markets. Although economic conditions are different in each country, investor reaction to the developments in one country may affect the securities of issuers in other countries, including Argentina. We cannot assure you that the market for the securities of Argentine issuers will not be affected negatively by events elsewhere or that such developments will not have a negative impact on the market value of the Notes. For example, an increase in the interest rates in a developed country, such as the United States, or a negative event in an emerging market, may induce a significant capital outflows from Argentina and depress the Notes price of the Notes.

We cannot assure you that the credit ratings of the Notes will not be lowered, suspended or withdrawn by the rating agencies.

The credit ratings of the Notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. Moreover, the methods of assigning ratings used by Argentine rating agencies may differ in important aspects from those used by the rating agencies in the United States or other countries. The ratings of the Notes are not a recommendation to buy, sell or hold the Notes, and the ratings do not comment on market prices or suitability for a particular investor. An explanation of the significance of such ratings may be obtained from the rating agencies. We cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the Notes.

Negative developments in our business, results of operations and financial condition or other factors could cause the ratings agencies to lower the credit ratings, or ratings outlook, of our short- and long-term debt and consequently, impair our ability to raise new financing or refinance our current borrowings and increase our costs of issuing any new debt instruments. Any of these factors could adversely affect our business.

We may redeem the Notes prior to maturity.

The Notes are redeemable at our option in the event of certain changes in Argentine taxes and, if the applicable pricing supplement so specifies, the Notes may also be redeemable at our option for any other reason. We may choose to redeem those Notes at times when prevailing interest rates may be relatively low. Accordingly, an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes.

Holders of Notes may find it difficult to enforce civil liabilities against us or our directors, officers and controlling persons.

We are organized under the laws of Argentina and our principal place of business (*domicilio social*) is in the Ciudad Autónoma de Buenos Aires, Argentina. Most of our directors, officers and controlling persons reside outside the United States. In addition, all or a substantial portion of our assets and the assets of our directors, officers and controlling persons are located outside of the United States. As a result, it may be difficult for holders of Notes to effect service of process within the United States on such persons or to enforce judgments against them, including any action based on civil liabilities under the U.S. federal securities laws. Based on the opinion of our Argentine counsel, there is doubt as to the enforceability against such persons in Argentina, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws. See “Enforcement of Civil Liabilities”.

Our obligations under the Notes will be subordinated to certain statutory liabilities.

Under Argentine bankruptcy law, the obligations under the Notes are subordinated to certain statutory preferences. In the event of liquidation, such statutory preferences, including claims for salaries, wages, secured obligations, social security, taxes and court fees and expenses, will have preference over any other claims, including claims by any investor in respect of the Notes. Furthermore, obligations under the Notes will rank junior to certain of our outstanding demand obligations to depositors.

CAPITALIZATION

The following table sets forth our capitalization and indebtedness as of June 30, 2017, in thousands of pesos and U.S. dollars, presented in accordance with Central Bank Accounting Rules. This table should be read in conjunction with, and is qualified in its entirety by reference to, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes, included in this offering memorandum, and with related information included in any pricing supplement related to any series of Notes.

	As of June 30, 2017	
	(in thousands of Ps.) unaudited	(in thousands of US\$ ⁽¹⁾) unaudited
Short-term debt⁽²⁾		
Deposits.....	19,657,688	1,184,305
Notes	2,426,264	146,174
Financial institutions	416,511	25,093
Interest payable	827,787	49,871
Total short-term debt.....	23,328,250	1,405,443
Long-term debt⁽²⁾		
Deposits.....	22,309	1,344
Notes	16,277,293	980,648
Total long-term debt.....	16,299,602	981,992
Capital		
Capital stock ⁽³⁾	1,500,000	90,370
Non-capitalized contributions	834	50
Adjustments to shareholders’ equity	717,115	43,204
Statutory reserves ⁽⁴⁾	1,129,962	68,076
Other reserves.....	1,052,465	63,407
Accumulated profit.....	2,280,829	137,412
Total shareholders’ equity	6,681,205	402,519
Total capitalization.....	46,309,057	2,789,954

(1) The exchange rate used for purposes of translation of amounts as of June 30, 2017 was Ps.16.5985 = US\$1.00 in accordance with the reference exchange rate published by the Central Bank as of such date.

(2) Short-term debt is indebtedness the residual maturity of which is within one year of the balance sheet date. Long-term debt is any debt the maturity of which exceeds such period.

(3) Includes subscribed and paid-in capital for 1.5 billion common shares, the par value of which is Ps.1.00 per share.

(4) Consists primarily of non-distributable legal reserves established pursuant to Central Bank regulations in an annual amount equal to 20.0% of net income plus any adjustments from prior years. The earnings reserves may only be used during periods when we have net losses and have depleted our reserves. Consequently, no dividends may be distributed if the legal reserve has been reduced.

USE OF PROCEEDS

We will use the proceeds from the issuance of Notes in compliance with the requirements of article 36 of the Negotiable Obligations Law, Communication “A” 3046, as amended and supplemented by Communication “A” 5571, of the Central Bank and other applicable regulations, and as specified in the relevant pricing supplement issued in connection with the related series of Notes.

Article 36 of the Negotiable Obligations Law and the Central Bank Communication referred to above require that we use any proceeds for:

- working capital in Argentina;
- investments in tangible assets located in Argentina;
- refinancing of outstanding debt;
- contributions to capital of a controlled or related corporation; *provided* that such corporation uses the proceeds of such contribution for the purposes specified above; or
- loan origination in accordance with Central Bank regulations and Central Bank Accounting Rules; *provided* that the proceeds from such loans are used for the purposes specified above.

Pending their application as specified above, we may also invest the proceeds of the Notes in government securities and short-term investments.

RATINGS

As authorized by the Capital Markets Law, the Program has no rating. Ratings may be requested upon issuance of each series or tranche of Notes, as set forth in the applicable pricing supplement.

EXCHANGE RATES AND EXCHANGE CONTROLS

Exchange Rates

In April 1991, a fixed exchange rate regime was established by law, according to which the Central Bank would have to sell U.S. dollars to any person or entity at a fixed exchange rate of Ps.1.00 per US\$1.00. On January 6, 2002, Law No. 25,561 of Public Emergency and Exchange Regime Reform (“*Ley de Emergencia Pública y de Reforma del Régimen Cambiario*”) was passed and the fixed exchange rate regime was terminated allowing for a controlled devaluation of the peso. After devaluing the peso and setting the official exchange rate at Ps.1.40 per US\$1.00, on February 11, 2002, the government allowed the peso to float. The increased demand for, and shortage of, U.S. dollars caused the peso to devalue significantly in the first half of 2002. Since June 30, 2002, the peso has depreciated against the U.S. dollar from an exchange rate of Ps.3.80 = US\$1.00 at June 30, 2002 to an exchange rate of Ps.15.8502 = US\$1.00 at December 31, 2016. The Central Bank has indirectly affected (and may continue to do so in the future) this market through its active participation in the sale and purchase of U.S. dollars.

In recent years, the Central Bank exerted an indirect influence on the foreign exchange market in order to insulate it against external shocks and maintain a relatively stable peso-dollar parity. On December 31, 2014, the exchange rate between the peso and the U.S. dollar declined to Ps.8.5520 per US\$1.00, representing a devaluation of the peso of approximately 31% during the year. On December 31, 2015, the exchange rate between the peso and the U.S. dollar declined to Ps.13.0050 per US\$1.00, representing a devaluation of the peso of approximately 52.0% since January 2015. On December 31, 2016, the exchange between the peso and the U.S. dollar declined to Ps.15.8502 per US\$1.00, representing a devaluation of the peso of approximately 22% since January 2016.

On June 30, 2017, the exchange rate between the peso and the U.S. dollar was at Ps.16.5985 per US\$1.00, representing a depreciation of the peso of approximately 4.27% since January 2, 2017. As of October 18, 2017, the exchange rate between the peso and the U.S. dollar was Ps.17.3250 per US\$1.00, according to the quotation released by the Central Bank for the exchange rate known as “foreign seller currency offer rate for the U.S. dollar”. See “Risk Factors— Exchange controls and restrictions on transfers abroad and capital inflow restrictions, if re-imposed, could limit the availability of international credit”.

The following table shows the maximum, minimum, average and closing exchange rates for each period applicable to purchases of U.S. dollars.

	Exchange Rates			
	Maximum ⁽¹⁾⁽²⁾	Minimum ⁽¹⁾⁽³⁾	Average ⁽¹⁾⁽⁴⁾	At closing ⁽¹⁾
Year ended:				
December 31, 2012	4.9173	4.3048	4.5515	4.9173
December 31, 2013	6.5180	4.9228	5.4789	6.5180
December 31, 2014	8.5555	6.5430	8.1188	8.5520
December 31, 2015	13.7633	8.5537	9.2689	13.0050
December 31, 2016	16.0392	13.0692	14.7794	15.8502
Month ended:				
January 2017	16.0533	15.8083	15.9065	15.9117
February 2017	15.8350	15.3675	15.5983	15.4550
March 2017	15.6687	15.3875	15.5304	15.4770
April 2017	15.4532	15.1742	15.3599	15.4268
May 2017	16.1420	15.2687	15.6981	16.1420
June 2017	16.5985	15.8510	16.1166	16.5985
July 2017	17.7642	16.7500	17.1712	17.6700
August 2017	17.7833	17.0583	17.4165	17.3650
September 2017	17.6108	16.9720	17.2465	17.3183
October 2017 (through October 18, 2017)	17.5117	17.3250	17.4029	17.3250

Source: Central Bank.

- (1) Average between the offer exchange rate and the bid exchange rate according to Central Bank Communication “A” 3500 “foreign currency exchange rate”.
- (2) The maximum exchange rate appearing in the table was the highest end-of-month exchange rate in the year or shorter period, as indicated.
- (3) The minimum exchange rate appearing in the table was the lowest end-of-month exchange rate in the year or shorter period, as indicated.
- (4) Average exchange rates at the end of the month.

Exchange Controls

Due to the economic and financial crisis in Argentina that started in 2001, the inability of Argentina to service its public external debt and the decreased level of deposits in the financial system, the Argentine government imposed a number of monetary and currency exchange control measures, including restrictions on the free disposition of funds deposited in banks and restrictions on the transfer of funds abroad, subject to certain exceptions.

In addition to the above measures, on February 8, 2002, the Central Bank issued strong restrictions which required the prior authorization of the Central Bank with respect to transfers of funds abroad to make payments of principal and/or interest due on foreign indebtedness.

Starting in October 2011, the Argentine government expanded the restrictions on access to the foreign exchange market and transfers of foreign currency abroad. Through a combination of foreign exchange and tax regulations, the Argentine authorities significantly curtailed access to foreign exchange by individuals and private sector entities. As a result, foreign exchange regulations included, among others, the obligation to obtain prior approval by the Central Bank of certain foreign exchange transactions such as payments relating to royalties, services or fees payable to related parties of Argentine companies outside Argentina.

Nevertheless, starting in December 2015, the Macri administration began to eliminate all restrictions affecting the access to the foreign exchange market the transfers of funds abroad, returning to the legal framework in force prior to October 2011. By the end of 2016, the restrictions that impeded free access to the *Mercado Único y Libre de Cambios* were eliminated.

Registration Requirements

An Argentine debtor must inform the Central Bank of any foreign currency indebtedness (financial and commercial) it incurs and must register and validate such indebtedness in accordance with Communications “A” 3602 and 4062. Compliance with this duty to inform is required in order to enable such debtor to purchase foreign currency in the Argentine foreign exchange market to make debt service payments due on such foreign currency indebtedness.

Disbursements

According to Communication “A” 5850, Argentine residents are no longer required to transfer and sell proceeds received from the incurrence of foreign currency indebtedness in the Argentine foreign exchange market both to liquidate principal and/or interest. Resolution E 1/2017 of the Ministry of Finance and Central Bank Communication “A” 6150 abolished the obligation that required non-residents who make portfolio investments in Argentina in order to hold private sector financial assets to maintain the funds in the country for a period of 120 days.

Interest Payments

Foreign currency necessary to pay interest on foreign indebtedness and settled in the Argentine foreign exchange market incurred after Communication “A” 5850, modified by Communication “A” 6244, and Communication “A” 6037 were enacted, can be obtained in the local foreign exchange market.

Corporate Profits and Dividends

Pursuant to foreign exchange regulations, Argentine companies may freely access the Argentine foreign exchange market for remittances abroad to pay earnings and dividends as long as they arise from closed and fully audited balance sheets and have satisfied applicable certification requirements.

SELECTED FINANCIAL AND OTHER INFORMATION

The following tables present our selected consolidated financial and other information as of and for the years ended December 31, 2012, 2013, 2014, 2015 and 2016 and as of and for the six-month periods ended June 30, 2016 and 2017. This information should be read in conjunction with, and is qualified in its entirety by reference to, our financial statements included in this offering memorandum and the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Selected Statistical Information”.

The selected consolidated financial information as of December 31, 2014, 2015 and 2016, and for each of the years ended December 31, 2014, 2015 and 2016 has been derived from our consolidated financial statements included in this offering memorandum which have been audited by Price Waterhouse & Co. S.R.L. The reports of Price Waterhouse & Co. S.R.L. on our audited consolidated financial statements appear elsewhere in this offering memorandum. The summary consolidated financial information as of December 31, 2012 and 2013 and for the years ended December 31, 2012 and 2013 has been derived from our audited consolidated financial statements not included in this offering memorandum.

The consolidated financial information as of June 30, 2017 and for the six-month periods ended June 30, 2016 and 2017 has been derived from our unaudited interim consolidated financial statements included in this offering memorandum. Our results of operations for the six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the year ended December 31, 2017 or for any other period.

Our audited and unaudited financial statements have been prepared in accordance with Central Bank Accounting Rules, which differ in certain significant respects from Argentine GAAP and IFRS. We have included a description of certain significant differences between IFRS and Central Bank Accounting Rules, as applied to us in “Annex I—Summary of Significant Differences Between Central Bank Accounting Rules and IFRS”. Our audited financial statements do not contain any reconciliation to IFRS of our shareholders’ equity or our net income; however, such reconciliation is included in our unaudited financial statements. Potential investors in Notes offered under the Program should consult with their professional advisors for an understanding of the differences between our accounting policies and Argentine GAAP and IFRS and how those differences affect our financial information herein and in any pricing supplement. In 2014, the Central Bank issued Communication “A” 5541, which provided a roadmap to converge the existing informational and accounting regime in accordance with Central Bank Accounting Rules and IFRS. Moreover, in December 2016, the Central Bank issued Communication “A” 6114, which established the criteria that should be taken into consideration by financial institutions in the framework for convergence starting on January 1, 2018. We are currently undertaking a full review of our accounting systems in preparation for our timely adoption of IFRS accounting standards.

Effective January 1, 1995, pursuant to Resolution No. 388 of the Financial Superintendency, we discontinued our prior practice of adjusting the results presented in our financial statements to reflect the effects of inflation. Effective January 1, 2002, we resumed the adjustment of our results to reflect the effects of inflation, as a result of the application of Communication “A” 3702 of the Central Bank, which repealed any regime that did not allow companies to restate their accounting balances at period-end currency values. On March 25, 2003, Decree No. 664/03 rescinded the requirement that financial statements be prepared in constant currency, effective for financial periods on or after March 1, 2003 and on April 8, 2003, the Central Bank issued Communication “A” 3921 discontinuing inflation accounting effective as of March 1, 2003. As a result, our audited financial statements as of December 31, 2012, 2013, 2014, 2015 and 2016 do not include the effects of inflation.

The exchange rate used for purposes of translation of amounts in pesos to U.S. dollars (i) as of December 31, 2016 was Ps.15.8502 = US\$1.00, and (ii) as of June 30, 2017 was Ps.16.5985 = US\$1.00, in each case, in accordance with the Reference Exchange Rate published by the Central Bank as of each such date. See “Exchange Rates and Exchange Controls”.

	For the Year Ended December 31,					For the Six Months Ended June 30,	
	2012	2013	2014	2015	2016	2016	2017
SELECTED RATIOS⁽⁴⁾						(unaudited)	
Profitability							
Return on average assets ⁽⁵⁾	2.39%	2.31%	2.13%	3.07%	1.34%	1.88%	2.33%
Return on average shareholders' equity ⁽⁶⁾	10.31%	11.53%	13.34%	22.07%	10.70%	13.34%	19.63%
Net financial margin ⁽⁷⁾	7.24%	8.96%	8.97%	8.57%	6.16%	7.34%	7.04%
Efficiency ⁽⁸⁾	71.20%	66.59%	67.49%	65.22%	74.76%	73.23%	67.46%
Capital							
Total shareholders' equity as a % of total assets.....	21.59%	18.87%	14.02%	13.79%	11.62%	14.35%	12.09%
Total shareholders' equity as a % of total liabilities.....	27.69%	23.36%	16.35%	16.04%	13.20%	16.82%	13.84%
Other assets as a % of assets ⁽⁹⁾	6.33%	6.79%	5.59%	6.54%	6.41%	7.47%	8.09%
Liquidity							
Cash and cash equivalents plus government and corporate securities as a % of deposits.....	44.06%	36.56%	53.92%	57.99%	64.19%	48.17%	57.93%
Net loans as a % of deposits.....	122.12%	120.65%	94.03%	99.89%	143.96%	124.19%	157.62%
Credit Quality							
Non-performing loans as a % of total loans.....	2.31%	2.17%	2.34%	1.98%	2.66%	2.13%	2.94%
Non-performing consumer loans as a % of total consumer loans ⁽¹⁰⁾	3.20%	3.15%	3.41%	2.58%	3.78%	3.05%	4.42%
Non-performing commercial loans as a % of total commercial loans ⁽¹¹⁾	0.57%	0.51%	0.58%	0.67%	0.25%	0.28%	0.08%
Allowances as a % of total loans.....	2.37%	2.20%	2.24%	2.09%	2.49%	2.12%	2.45%
Allowances as a % of non-performing loans ⁽¹²⁾	102.64%	101.62%	95.89%	105.84%	89.19%	99.58%	83.22%
OTHER DATA							
Number of branches.....	55	60	60	62	65	62	65
Number of employees.....	1,980	2,488	2,608	2,494	2,184	2,366	2,092

- (1) The exchange rate used for purposes of translation of balances as of December 31, 2016 and June 30, 2017 was Ps.15.8502 = US\$1.00 and Ps.16.5985 = US\$1.00, respectively, in accordance with the Reference Exchange Rate published by the Central Bank as of each such date.
- (2) Includes Ps.972.1million, Ps.29.9 million, Ps.2,422.2 million, Ps.1,295.6 million, Ps.1,116.9 million, Ps.1,295.6 million and Ps.3,606.0 million from instruments issued by the Central Bank as of December 31, 2012, 2013, 2014, 2015 and 2016 and as of June 30, 2016 and 2017, respectively.
- (3) Includes Ps.2,013.7 million, Ps.2,660.1 million, Ps.4,347.1 million, Ps.7,010.0 million, Ps.16,018.7 million, Ps.9,720.8 million and Ps.18,703.6 million in unsubordinated negotiable obligations as of December 31, 2012, 2013, 2014, 2015 and 2016 and as of June 30, 2016 and 2017, respectively.
- (4) The ratios shown were prepared in accordance with Central Bank Accounting Rules. Pursuant to those standards, current and non-current assets as well as current and non-current liabilities are not presented as separate line items. Consequently, it is impossible to calculate ratios such as "Capital Immobilization," which differs from CNV Rules and Argentine GAAP.
- (5) Consists of net income (annualized in the case of ratios as of June 30, 2016 and 2017) as a percentage of average total assets. Average assets are a regular average between the balance of consolidated assets at the beginning of the period (taken as the beginning of the period on December 31 of the previous year) and the balance of consolidated assets at the end of the period, derived from our financial statements.
- (6) Consists of net income (annualized in the case of ratios as of June 30, 2016 and 2017) as a percentage of total average shareholders' equity. Net average shareholders' equity is a regular average between the balance of consolidated net shareholders' equity at the beginning of the period (taken as the beginning of the period on December 31 of the previous year) and the balance of consolidated net shareholders' equity at the end of the period, as derived from our financial statements.
- (7) Consists of net financial income (annualized in the case of ratios as of June 30, 2016 and 2017) as a percentage of average assets.
- (8) Ratio of administrative expenses to the sum of net financial income, net contribution from insurance and other income from services, net.
- (9) "Other Assets" consist of the sum of "Investments in Other Companies," "Miscellaneous Receivables," "Bank Premises and Equipment," "Miscellaneous Assets," "Intangible Assets" and "Items Pending Allocation".
- (10) "Consumer loans" consist of our portfolio of mortgage loans, personal loans and credit card loans. Non-performing consumer loans consist of those loans classified as "Medium Risk," "High Risk," "Uncollectible" or "Uncollectible for Technical Reasons" in accordance with Central Bank loan classification standards.
- (11) "Commercial loans" consist of overdraft facilities, promissory notes, pledge loans and other loans. Non-performing commercial loans consist of those loans classified as "Problematic," "High Risk of Insolvency," "Uncollectible" or "Uncollectible for Technical Reasons" in accordance with Central Bank loan classification standards.
- (12) Consists of allowances as a percentage of consumer and commercial loans which are classified as "Problematic," "High Risk of Insolvency," "Uncollectible" or "Uncollectible for Technical Reasons" in accordance with Central Bank loan classification standards.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with our audited and unaudited financial statements which are included in this offering memorandum. We maintain our financial books and records in pesos and prepare our audited and unaudited financial statements in accordance with Central Bank Accounting Rules which prescribe the reporting and disclosure requirements for banks and financial institutions in Argentina. These rules differ in certain significant respects from Argentine GAAP and IFRS. For a summary of the key differences see Annex I — Summary of Significant Differences Between Central Bank Accounting Rules and IFRS. For further information on the convergence process between the existing informational and accounting regime and IFRS, see “Summary Financial and Other Information” and Note 3 of our Unaudited Financial Statements for the six-month period ended on June 30, 2017.

Our audited financial statements do not contain reconciliation to IFRS of our shareholders' equity or our net income; however, such reconciliation is included in our unaudited financial statements. Potential investors should consult with their advisors for an understanding of the differences between the accounting policies used by us and Argentine GAAP and IFRS and how those differences affect the financial information herein contained.

Principal Factors Affecting our Business

Impact of Economic Conditions in Argentina

Our business and results of operations are dependent on, and significantly impacted by, the macroeconomic situation prevailing in Argentina. During 2012 and in line with global macroeconomic environment, growth of the Argentine economy slowed, and the GDP increased 0.8%.

In 2014, GDP grew 0.5%. Although external demand decreased and private consumption slowed, investment was more dynamic. The rest of the services continued to show an upward trend, driven mainly by communications, civil and oil infrastructure. The main indicators in the labor market reflected a slight decrease in the unemployment rate.

The consumer price index known as IPCNu (*Índice de Precios al Consumidor Nacional Urbano*) stabilized its monthly rate of growth as from mid-2014 after the slow-down seen in the preceding months. These dynamics were influenced by seasonal factors, monetary and foreign exchange policy and the price agreements in a framework of an aggregate demand that performed weakly.

The Central Bank implemented a set of measures that helped reduce volatility in the foreign exchange rate. Starting in February 2011, the Central Bank reinstated the limit on the global net position of foreign currency that financial institutions were allowed to hold at 30% of their capital and subsequently reduced to 20% in September 2014. This measure helped to increase the supply of foreign currency and contributed to greater activity in the foreign exchange markets. Additionally, the Central Bank reduced the interest rate on peso-denominated term deposits placed by individuals and increased the amount covered by the deposit guarantee.

The prices of Argentine government securities and Argentine companies' shares overall strengthened since May 2014 in spite of increases in volatility caused by both internal and external factors, such as the controversy with holdout bondholders in the courts of New York and the deterioration in the implicit foreign exchange rates used. With respect to funding through capital market issuances, there was increased activity although at a lower price as compared to previous months.

On January 8, 2016, based on its determination that the INDEC had failed to produce reliable statistical information, particularly with respect to PCINu, GDP, poverty and foreign trade data, the Macri administration declared a state of administrative emergency for the national statistical system and the INDEC until December 31, 2016.

After the emergency declaration, reforms were implemented at INDEC to reorganize its technical and administrative structure, which caused the publication of the CPI to be temporarily suspended. During the implementation of these reforms, INDEC used the figures of IPC and other official statistics published by the Province of San Luis and by the Autonomous City of Buenos Aires.

As measured by the price index of the Province of San Luis, Argentina's GDP grew 2.5% in 2015, and estimated annual inflation was 31.6%. The primary fiscal balance showed a deficit of 5.4% as of December 31, 2015.

In the external sector, the INDEC recalculated trade balance estimates for 2014 and 2015, showing a trade surplus of US\$3,177 million for 2014 and a deficit of US\$2,969 million for 2015. Imports for 2015 totaled US\$59,788 million (a decrease of 8% compared to 2014) whereas exports totaled US\$56,752 million (a 17% decrease compared to 2014).

On June 29, 2016, INDEC published a reassessment of the GDP for prior periods, and the growth of the economy under its calculations was 2.4% for 2013, (2.5)% for 2014 and 2.5% for 2015.

The GDP growth for 2016 was (2.1)%, and the estimated annual inflation for 2016 was of 41.05% (measured by the consumer price index of the City of Buenos Aires, given that INDEC only published the national consumer price index since April and did not provide data for the first months). The trade balance for 2016 showed a surplus of US\$2,124 million, based on export and import totals of US\$57,733 million and US\$55,610 million, respectively.

Provisory INDEC data states that the GDP for the second quarter of 2017 represents a 2.7% increase compared to the GDP of the second quarter of 2016. The seasonally adjusted growth for the first and second quarter of 2017 was of 1.2% and 0.7%, respectively, according to INDEC, while inflation up to September 2017 was of 17.6% (measured by the national consumer price index published by INDEC). The trade balance as of August 2017 showed a deficit of US\$4,498 million, based on export and import totals, as of August 31, 2017, of US\$38,528 million and US\$43,026 million, respectively.

Argentine Financial System

In 2014, a slight demonetization of the economy was observed due to a shift from an expansive monetary policy between 2010 and 2013 to a moderate monetary policy after the devaluation of the peso in January 2014. The placement of Central Bank debt instruments absorbed a significant portion of the monetary expansion derived from fiscal assistance to the Argentine government and the purchase of foreign currency from the private sector.

Central Bank foreign currency reserves as of December 31, 2014 amounted to US\$31.4 billion, an increase of approximately US\$844 million over 2013, and US\$25.5 billion as of December 31, 2015 and US\$47.9 billion as of June 30, 2017. This increase from 2015 to 2016 was primarily the result of certain swap transactions entered into with different banks, the lifting of several foreign exchange restrictions implemented by the Macri Administration and the regained access to the foreign capital markets of Argentina and local corporate entities.

In line with the reduced growth of the monetary base, financial activity slowed during 2014. The average total deposits and the average total credits increased by 27% and 24%, respectively, compared to the 27% and 30% average increase reported in 2013 respectively. With respect to deposits, the trend of previous years continued in 2014, with private sector deposits growing more than public sector deposits as a result of the fiscal deficit of the national and provincial governments. With respect to interest-earning assets, the growth rate of total loans in the financial system was lower than in 2013, despite the fact that LEBAC holdings doubled. The LEBAC/Loan ratio increased from 19% in 2013 to 32% in 2014. System-wide liquidity grew from 30% to 43% with respect to deposits in December 2014 due to increased holdings of LEBAC.

In general, increases in prevailing interest rates may result in more interest revenue from loans. An increase of prevailing interest rates may, however, adversely affect us as a result of reduced overall demand for our loans and greater risk of default by our clients. In addition, relatively high interest rates affect our funding costs, and can adversely affect spreads on our loan portfolio if we are unable to pass on the increased funding costs to our customers. On the other hand, a decrease in interest rates may reduce revenue from our loan portfolio. This revenue decrease could be offset by an increase in the volume of loans resulting from higher demand and/or a decrease in our funding costs.

Interest rates also rose during 2014, offsetting the reduction in the monetary base. In 2014, the Central Bank implemented a scheme of maximum reference lending rates for consumer and secured loans in order to increase demand for credit. During 2014, borrowing rates decreased due to excess liquidity. With respect to borrowing rates, the Central Bank implemented a control mechanism, establishing a minimum deposit rate for certain term deposits.

In 2014, the soundness of the financial system improved, increasing its capacity to overcome potential economically volatile scenarios. Changes were implemented in the operation of the financial system as a result of the monetary and sector-specific policies of the Central Bank. In 2014, after nine years of positive results, the strength of the financial system increased, with a net worth of Ps.168.2 billion (a 38% increase compared to 2013).

The steady lifting of restrictions on the access to the foreign exchange market led to a depreciation of the peso in December 2015, and the exchange rate reached Ps.13.0050 per US\$1.00 as of December 31, 2015, accounting for 52.1% total depreciation over the year. This change in the exchange rate policy also impacted on interest rates in pesos. For example, after being stable throughout the year at a range of 20-22%, the Badlar rate closed the year above 27%, an increase that reflected the more stringent monetary policy implemented by the Central Bank (mainly through the placement of bills) along with the release of exchange controls.

Loans to the private sector in pesos grew 37% in 2015, below the 38% increase in deposits, resulting in higher liquidity in the system. Loans to the non financial private sector in pesos grew 33% in 2016, while deposits from the non financial private sector in pesos grew 43%.

The financial system remained stable during the first six months of 2017, amid external and domestic changes that tended to be favorable. The financial sector maintained required levels of liquidity and solvency, as well as a low to moderate exposure to the different risks inherent in lending activity, showing a considerable degree of resistance to stress events. Less volatility in the international financial markets and improvements in economic activity of the country's main trading partners enabled increased debt placements in foreign markets, attracting capital to increase the availability of financing for the local productive sector.

The stabilization of the foreign exchange market and the Tax Amnesty Law has allowed private sector funds to be channeled towards an increase in deposits in the system. On the other hand, the increase in credit to the private sector remains stable for both companies and individuals, mainly due to seasonal factors. It is expected that banks' funding will continue to strengthen and that credit will be stimulated given the greater demand for credit due to higher rates of employment, higher real wages and improved economic activity.

In recent months there has been sustained growth in the origination of adjustable-rate mortgage loans (adjustable by UVA, Purchasing Value Units that can be upgraded by "CER"), surpassing Ps.10,078 million in principal disbursements from our launch of the product in April 2016 through June 30, 2017.

Foreign currency-denominated loans to the private sector increased mainly as a result of the credit lines associated with the pre-financing of exports being drawn. As for the financial sector's funding, as of April 2017 private sector deposits in pesos grew at an annualized rate of 48.9%, supported by an increase in the balance of savings accounts of 75.0%, and to a lesser extent by an increase of term deposits by 16.1%. The balance of foreign currency deposits of the private sector grew at an annualized rate of 1.1% through June 30, 2017. As of June 30, 2017, the Central Bank's foreign currency reserves totaled US\$47,995 million.

In 2016, financial institutions continued to increase their long-term funding, placing a total of Ps.45,187 million in bond financings during the year, nearly triple the principal amount placed in 2015. The volume of financing through these instruments amounted to Ps.9,566.6 million in the first four months of 2017. Given the economic and financial improvement and the progress made in creating a yield curve in nominal pesos, it is expected that the level and weight of this type of long-term funding will increase in the coming periods, which is expected to generate further growth of the financial system.

The new monetary and financial framework, however, presents challenges to the way banks conduct their activities in Argentina, mainly in terms of their transactional bias and the proportion of profits derived from funding at very low real rates as a result of inflation. In a context of deflation and positive real interest rates for depositors, along with conditions that favor greater competition, financial institutions may need to readjust their business models. Financial institutions will be able to plan with greater certainty and take advantage of economies of scale. The current strengths of the sector are key: a solvent and high liquidity position, a portfolio of high quality loans and potential to grow.

Inflation

Historically, inflation in Argentina has played a significant role in the economic conditions in Argentina and, in turn, the operations and financial results of companies operating in Argentina, such as the Bank. The increase in currency aggregates caused inflation to accelerate during the second half of 2015 and, according to the price index published by the Province of San Luis (one of the few Argentine provinces to publish indices regarded as reliable),

increased 31.6% in 2015. The estimated annual inflation was of 41.05% for 2016 (measured by the consumer price index of the City of Buenos Aires), and inflation between January 2017 and September 2017 was of 17.6% (measured by the national consumer price index published by INDEC).

On January 8, 2016, based on its determination that INDEC had failed to produce reliable statistical information, particularly with respect to CPI, GDP and foreign trade data, poverty and unemployment rates, the Macri administration declared a state of administrative emergency for the national statistical system. INDEC suspended publication of certain statistical and other data until it could complete a reorganization of its technical and administrative structure to recover its ability to produce sufficient and reliable statistical information.

After this process of reorganization and recovery, INDEC began to progressively resume publication of official data. Inflation data for May, June, July, August, September, November and December of 2016 was recalculated at 4.2%, 3.1%, 2.0%, 1.1%, 2.4%, 1.6% and 1.2%, respectively; although the CPI data for the first four months of 2016 was never published.

In September 2016, the Central Bank published its inflation targets of 12% to 17% for 2017, 8% to 12% for 2018 and 5% for 2019. These targets imply that the Central Bank will use all available monetary policy instruments to achieve its objectives regarding inflation targets. As of the date of this offering memorandum, no new targets have been published.

Critical Accounting Policies

We believe that the following are the critical accounting policies under Central Bank Accounting Rules, as they are important to the portrayal of our financial condition and results of operations and require a subjective and complex judgment and the need to make estimates about the effect of matters that are inherently uncertain.

Loans

We record our loans at their outstanding principal amounts, adjusted by *Coeficiente de Estabilización de Referencia* (“CER”), and *Coeficiente de Variación Salarial* (“CVS”), where applicable, plus accrued interest and net of allowance for loan losses. We suspend the accrual of interest on loans which are past due more than 90 days.

Loans to the non-financial private sector originally granted in foreign currency prior to December 2001 have been converted into pesos at the exchange rate of Ps.1.00 per US\$1.00, as established by Law No. 25,561, Decree 214/02, as amended and complementary rules. Since February 3, 2002, the CER and CVS have been applied to the amount of those loans and maximum rates have been established, depending on the borrower.

Interest Accruals and Adjustments of Principal Amounts

In general for lending and certain borrowing transactions in local and foreign currency, interest is recognized on a compounded basis, which provides for an increasing effective rate over the life of the loan. Interest accruals for loans past due more than 90 days, are discontinued.

Adjustments of principal amounts from the application of the CER were accrued as established by Central Bank regulations. As of June 30, 2017, the CER and CVS adjustments reported under financial expenses was Ps.25.0 million. Capital adjustments for the application of UVA, UVI, CER and CVS were accrued according to standards issued by the Central Bank, interrupting their accrual for loans whose maturity exceeds ninety days.

Allowance for Loan Losses

We provide for estimated losses on loans and the related accrued interest by establishing an allowance for loan losses. The allowance charged to expense is determined by our management based upon loan classification, actual loss experience, current and expected economic conditions, delinquency aging and an evaluation of potential losses in the current loan portfolio. We give specific attention to loans with evidence that may negatively affect our ability to recover the loan and accrued interest.

Insurance

We record provisions for incurred, but not reported, insurance claims and pending insurance claims based on historical loss experience. We provide property damage, life and unemployment insurance for our customers. We recognize income from insurance premiums as it is charged as a component of the monthly loan installment under “Income from services” in the accompanying consolidated income statement. We discontinue accruing insurance premiums for individual loans when the related loan is over 90 days past due.

Derivative Financial Instruments

Foreign currency-denominated obligations under swap transactions carried out as a hedge have been converted into Argentine pesos. Interest rate swap transactions carried out for the purposes of hedging assets and liabilities with fixed and floating rates have been valued in accordance with the unsettled balances of agreed upon lending and borrowing interest rates. Forward transactions have been recorded by the difference between the agreed foreign currency exchange rate and the spot exchange rate at the end of the year.

Future contracts to buy or sell foreign currency are recorded at fair value. The settlement of these contracts is carried on a daily basis for the difference, if any, between the closing price of the underlying asset and the closing price or value of the underlying asset corresponding to the previous day. Changes in these values, for all derivative instruments, are recognized as a gain or loss under the caption “Financial Income—Other” or “Financial Expenses—Other,” respectively, in our consolidated income statements. As of June 30, 2017, we were party to certain proceedings before administrative authorities arising out of certain derivative transactions. See “Business—Litigation”.

Securizations of Loans

We account for the transfer of loans to trusts and the issuance of mortgage bonds, as a sale and record its retained interest (Certificate of Participation) in the securitization trusts at their principal amounts. We recognize a gain or loss for the difference between the cash proceeds received and the principal balance of the loans underlying the bonds or trust sold. We adjust retained interests relating to certificates of participation on a monthly basis to reflect the net results of our residual interest in the trusts.

The certificates of participation have been recorded according to the equity method of accounting, written down, to reflect any allowances for impairment. In addition, debt securities issued by the trust are recorded at face value, adjusted by CER, when applicable, plus accrued interest, written down, if applicable, to reflect any allowances for impairment and less the negative amount of the equity method applied to the certificates of participation, when applicable.

We may sell the retained interest in our trusts in the future.

Provisions

We record provisions when a loss is probable, and the amount of loss can be reasonably estimated. We record these provisions as liabilities in “Provisions”. These reserves cover various items such as insurance risk, provisions for lawsuits and other contingencies. We have established provisions in an amount equal to the present value of our remaining payment obligations under our employees’ retirement plans.

Income Tax

We recognize income tax charges and liabilities on the basis of the tax returns corresponding to each fiscal year at the statutory tax rates. As of December 31, 2014, 2015 and 2016, the corporate tax rate was 35%. Under Central Bank Accounting Rules we do not recognize deferred income taxes.

Six Months ended June 30, 2016 and 2017

The following table sets forth the principal components of our net income for the six months ended June 30, 2016 and 2017.

	For the six months ended June 30,		% Change
	2016	2017	2016/2017
	(in millions of pesos, except for percentages)		
Financial income	4,743.5	5,331.3	12.4
Financial expenses	(3,276.7)	(3,440.4)	5.0
Net financial income	1,466.8	1,890.9	28.9
Provision for loan losses	(200.8)	(379.7)	89.1
Income from services, net:			
Net contribution from insurance ⁽¹⁾	870.2	842.7	(3.2)
Other income from services, net ⁽²⁾	863.6	1,435.2	66.2
Subtotal income from services, net	1,733.8	2,277.9	31.4
Administrative expenses.....	(2,343.9)	(2,812.4)	20.0
Non-controlling interest	2.4	(44.9)	NM ⁽⁴⁾
Miscellaneous income (expenses), net ⁽³⁾	(31.3)	(27.3)	(12.8)
Income tax	(251.7)	(279.6)	11.1
Net income	375.3	625.0	66.5

- (1) Insurance premiums minus insurance claims.
(2) Other income from services minus other expenses for services.
(3) Miscellaneous income minus miscellaneous expenses.
(4) Not meaningful.

Net Income

Our net income increased 66.5%, from Ps.375.3 million for the six months ended June 30, 2016 to Ps.625.0 million for the six months ended June 30, 2017, primarily as a result of:

- a 12.4% increase in financial income of Ps.587.8 million; and
- a 31.4% increase in net service revenues of Ps.544.1 million.

These increases were partially offset by:

- a 5.0% increase in financial expenses of Ps.163.7 million,
- a 20.0% increase in administrative expenses of Ps.468.5 million; and
- a 89.1% increase in provision for loan losses of Ps.178.9 million.

Financial Income

The following table sets forth the principal components of our financial income for the six months ended June 30, 2016 and 2017.

	For the six months ended June 30,		% Change
	2016	2017	2016/2017
(in millions of pesos, except for percentages)			
Interest earned on:			
Cash and due from banks	—	0.1	NM ⁽¹⁾
Loans to the financial sector.....	28.5	49.6	74.0
Overdraft facilities	126.8	49.1	(61.3)
Promissory notes.....	58.9	81.4	38.2
Mortgage loans.....	254.1	251.4	(1.1)
Pledge loans	82.8	58.6	(29.2)
Credit card loans	1,533.7	2,000.7	30.4
Financial leases	16.1	20.5	27.3
Other loans.....	1,060.5	1,480.4	39.6
Other receivables for financial transactions	2.6	8.9	NM ⁽¹⁾
Net income from government and corporate securities	1,269.4	966.7	(23.8)
CER adjustments.....	8.7	4.8	(44.8)
Gold and foreign currency quotation differences	—	7.4	NM ⁽¹⁾
Other	301.4	351.7	16.7
Total financial income.....	4,743.5	5,331.3	12.4

(1) Not meaningful.

The following table sets forth the effects of the changes in average volume of interest-earning assets and average nominal interest rates on our financial income between the six months ended June 30, 2016 and 2017.

	Increase/(decrease) June 30, 2016/ June 30, 2017
	(in millions of pesos)
Due to changes in average volume of interest-earning assets	2,496.1
Due to changes in average nominal interest rate.....	(1,908.3)
Net change.....	587.8

Our financial income increased 12.4% from Ps.4,743.5 million for the six months ended June 30, 2016 to Ps.5,331.3 million for the six months ended June 30, 2017, mainly due to an increase of 37.0% in the average balance of interest-bearing assets, from Ps.35,545.0 million for the six months ended June 30, 2016 to Ps.48,686.1 million for the six months ended June 30 of 2017, partially offset by a 12.8% decrease in average interest rates, from 27.6% for the six months ended June 30, 2016 to 24.1% for the six months ended June 30, 2017.

The increase in our financial income was driven by:

- a 39.6% increase in other loan income from Ps.1,060.5 million for the six months ended June 30, 2016 to Ps.1,480.4 million for the six months ended June 30, 2017, mainly as a result of a 47.9% increase in the average balance of our commercial loans portfolio;
- a 30.4% increase in revenues from credit card balances outstanding, from Ps.1,533.7 million for the six months ended June 30, 2016 to Ps.2,000.7 million for the six months ended June 30, 2017, mainly as a result of a 35.2% increase in the average balance of our credit card balances;
- a decrease of 23.8% in net income from public and private securities, from Ps.1,269.4 million for the six months ended June 30, 2016 to Ps.966.7 million for the six months ended June 30, 2017, reflecting lower revenues from intermediation activities due to a 46.4% decrease in the average rates earned on public and private securities; and

- a decrease of 61.3% in results from advances, from Ps.126.8 million for the six months ended June 30, 2016 to Ps.49.1 million for the six months ended June 30, 2017, mainly as a result of a 44.1% decrease in the average balance of advance loans due.

Financial Expenses

The following table sets forth the principal components of our financial expenses for the six months ended June 30, 2016 and 2017.

	For the six months ended		% Change
	June 30,	June 30,	2016/2017
	2016	2017	2016/2017
	(in millions of pesos, except for percentages)		
Interest accrued on:			
Checking account deposits.....	—	9.8	NM ⁽¹⁾
Savings account deposits.....	1.5	2.2	46.7
Time deposits.....	1,645.2	1,002.1	(39.1)
Inter-financial loans received.....	21.0	4.1	(80.5)
Other loans from financial institutions.....	72.0	50.2	(30.3)
Other liabilities from financial transactions.....	714.1	1,489.0	108.5
Subordinated bonds.....	10.6	4.3	(59.4)
Other interest payable.....	189.8	108.2	(43.0)
Gold and foreign currency quotation differences.....	188.6	18.8	(90.0)
CER adjustments.....	—	29.7	NM ⁽¹⁾
Contributions to the deposits security fund.....	44.8	16.3	(63.6)
Other.....	389.1	705.7	81.4
Total financial expenses.....	3,276.7	3,440.4	5.0

(1) Not meaningful.

The following table sets forth the effects of the changes in average volume of interest-bearing liabilities and average nominal interest rates on our financial expenses between the six months ended June 30, 2016 and the six months ended June 30, 2017.

	Increase/(decrease)
	June 30, 2016/June 30, 2017
	(in millions of pesos)
Due to changes in average volumes of interest-bearing liabilities.....	163.3
Due to changes in average nominal interest rates.....	0.4
Net change.....	163.7

Our financial expenses for the six months ended June 30, 2017 increased 5.0%, from Ps.3,276.7 million for the six months ended June 30, 2016 to Ps.3,440.4 million for the six months ended June 30, 2017, mainly as a result of a 33.5% increase in average balances of interest bearing liabilities, from Ps.25,491.8 million for the six months ended June 30, 2016 to Ps.34,023.4 million for the six months ended June 30, 2017, partially offset by a 24.4% decrease in accrued rates, from 21.0% for the six months ended June 30, 2016 to 15.9% for the six months ended June 30, 2017.

The increase in financial expenses was driven by:

- a 16.9% increase in the gross income tax (recorded under “Other”) from Ps.310.2 million for the six months ended June 30, 2016 to Ps.362.5 million for the six months ended June 30, 2017, as a result of higher taxable income and increases in the rates payable in certain provinces;
- a 108.5% increase in interest on other financial intermediation obligations, primarily as a result of an increase in interest accrued on our outstanding bonds from Ps.681.5 million for the six months ended June 30, 2016 to Ps.1,455.2 million for the six months ended June 30, 2017, mainly as a result of a 117.5% increase in the average balances of outstanding bonds; and

- a decrease of 39.1% in interest earned on fixed-term deposits, from Ps.1,645.2 million for the six months ended June 30, 2016 to Ps.1,002.1 million for the six months ended June 30 of 2017, mainly as a result of a 5.3% decrease in the average balance of fixed-term deposits.

Provision for Loan Losses

Our provision for loan losses increased 89.1% from Ps.200.8 million for the six months ended June 30, 2016 to Ps.379.7 million for the six months ended June 30, 2017, mainly due to growth of 39.9% in our average loan portfolio between June 30, 2016 and June 30, 2017 and a decline in the quality of our loan portfolio during the period.

Income from Services, Net

Our income from services, net, increased 31.4% from Ps.1,733.8 million for the six months ended June 30, 2016 to Ps.2,277.9 million for the six months ended June 30, 2017, mainly as a result of result of:

- a decrease of Ps.27.5 million, or 3.2%, in net insurance income; and
- an increase to Ps.571.6 million, or 66.2%, in other net service revenues.

Net Contribution from Insurance

The following table sets forth the principal components of our net contribution from insurance for the six months ended June 30, 2016 and June 30, 2017.

	For the six months ended		% Change
	June 30,		
	2016	2017	2016/2017
(in millions of pesos, except for percentages)			
Insurance premiums earned			
Life	4.9	—	NM ⁽¹⁾
Property damage	3.4	—	NM ⁽¹⁾
Other	69.4	97.8	40.9
Subsidiaries	958.9	1,044.1	8.9
Total insurance premiums earned	<u>1,036.6</u>	<u>1,141.9</u>	10.2
Insurance claims			
Life	1.1	6.7	NM ⁽¹⁾
Property damage.....	0.2	—	NM ⁽¹⁾
Others	0.5	14.4	NM ⁽¹⁾
Subsidiaries	164.6	278.1	69.0
Total insurance claims.....	<u>166.4</u>	<u>299.2</u>	79.8
Net contribution from insurance activities.....	<u>870.2</u>	<u>842.7</u>	(3.2)

(1) Not meaningful .

Our net contribution from insurance activities decreased 3.2% from Ps.870.2 million for the six months ended June 30, 2016 to Ps.842.7 million for the six months ended June 30, 2017, mainly as a result of the Ps.105.3 million increase in insurance premiums received, while total claims grew by Ps.132.8 million in the same period. The increase in insurance premiums received during the first half of 2017 was mainly due to higher sales activity by BHN Sociedad de Inversión (recorded in “Subsidiaries”), explained by higher life insurance products and property damage offered to the customers of the PROCREAR Trust. The growth in the PROCREAR Trust was due to an increase in mortgage loans granted (which require life insurance). For more information, see “Business—Lines of Business—Trustee Services or PROCREAR Trust”.

Other Income from Services, Net

The following table sets forth the principal components of our other income from services, net for the six months ended June 30, 2016 and 2017.

	For the six months ended June 30,		% Change
	2016	2017	2016/2017
(in millions of pesos, except for percentages)			
Other income from services			
Loan servicing fees from third parties.....	49.1	81.3	65.6
Liability products fees.....	77.7	66.3	(14.7)
Credit card fees.....	831.3	1,528.7	83.9
Other fees.....	263.9	104.7	(60.3)
Total other income from services.....	1,222.0	1,781.1	43.8
Other expenses for services			
Loan fees.....	31.6	39.5	25.0
Structuring and underwriting fees.....	20.1	17.7	(11.9)
Contributions and taxes on income from services.....	49.1	84.9	72.9
Borrowing transactions.....	22.5	39.0	73.3
Credit card fees.....	191.1	351.8	84.1
Other fees.....	44.4	(187.0)	NM ⁽¹⁾
Total other expenses for services.....	358.8	345.8	(3.6)
Total net other income from services.....	863.5	1,435.2	66.2

(1) Not meaningful.

Our other income from services, net, increased 66.2% from Ps.863.5 million for the six months ended June 30, 2016 to Ps.1,435.2 million for the six months ended June 30, 2017, mainly as a result of an increase of Ps.536.7 million in commissions due to the origination of credit cards of the Bank and Tarshop S.A. and, to a lesser extent, Ps.26.1 million of commissions for our activities as trustee of the PROCREAR Trust (recorded under “Other commissions” in other income from services).

Administrative Expenses

The following table sets forth the principal components of our administrative expenses for the six months ended June 31, 2016 and 2017.

	For the six months ended June 30,		% Change
	2016	2017	2016/2017
(in millions of pesos, except for percentages)			
Personnel expenses.....	1,251.5	1,514.5	21.0
Other fees ⁽¹⁾	268.9	273.3	1.6
Directors’ and syndics’ fees.....	47.7	73.5	54.1
Advertising and publicity.....	66.2	52.3	(21.0)
Value added tax and other taxes.....	124.1	164.3	32.4
Depreciation and amortization.....	105.0	139.8	33.1
Other operating expenses.....	287.0	367.8	28.2
Others.....	193.5	226.9	17.3
Total administrative expenses.....	2,343.9	2,812.4	20.0

(1) Consists primarily of legal, notarial, accounting and tax consulting services, temporary personnel, consulting services and collection services.

Our administrative expenses increased 20.0% from Ps.2,343.9 million for the six months ended June 30, 2016 to Ps.2,812.4 million for the six months ended June 30, 2017, mainly due to:

- a 21.0% increase in personnel expenses, from Ps.1,251.5 million for the six months ended June 30, 2016 to Ps.1,514.5 million for the six months ended June 30, 2017, mainly due to higher remunerations and social charges required by the applicable Argentine regulations mainly as a result of salary adjustments negotiated between the banks and the union;
- a 28.2% increase in other operating expenses from Ps.367.8 million for the six months ended June 30, 2016 to Ps.287.0 million for the six months ended June 30, 2017; and
- a 1.6% increase in other fees, from Ps.268.9 million for the six months ended June 30, 2016 to Ps.273.3 million for the six months ended June 30, 2017, mainly as a result of higher expenses in system development.

Miscellaneous Income, Net

The following table sets forth our miscellaneous income, net for the six months ended June 30, 2016 and 2017.

	For the six months ended June 30,		% Change
	2016	2017	2016/2017
	(in millions of pesos, except for percentages)		
Miscellaneous Income			
Results from permanent equity interests	23.8	24.1	1.3
Penalty interest	48.9	55.1	12.7
Loans recovered and allowances reversed	168.8	119.7	(29.1)
Others	94.9	140.4	47.9
Total miscellaneous income	336.4	339.3	0.9
Miscellaneous Expenses			
Loan loss provision for miscellaneous receivables and other provisions	158.0	115.9	(26.6)
Depreciation and loss of miscellaneous assets	0.4	1.8	NM ⁽¹⁾
Amortization of goodwill	1.7	1.7	—
Other	207.6	247.2	19.1
Total miscellaneous expenses	367.7	366.6	(0.3)
Total net miscellaneous income (loss)	(31.3)	(27.3)	(12.8)

(1) Not meaningful.

Our total miscellaneous income, net increased 12.8% from a net loss of Ps.31.3 million for the six months ended June 30, 2016 to a net loss of Ps.27.3 million for the six months ended 30 June 2017, mainly as a result of:

- a 19.1% increase in other miscellaneous expenses from Ps.207.6 million for the six months ended June 30, 2016 to Ps.247.2 million for the six months ended June 30, 2017, mainly as a result of result of higher taxes paid to provincial and municipal governments; and
- a decrease of 29.1% in loan recoveries and reversal of provisions of Ps.168.8 million for the six months ended June 30, 2016 to Ps.119.7 million for the six months ended June 30 2017.

These increases in miscellaneous expenses were partially offset by:

- reduced charges of 26.6% for loan loss provisions for miscellaneous receivables and other provisions, from Ps.158.0 million for the six months ended June 30, 2016 to Ps.115.9 million for the six months ended June 30, 2017; and
- a 47.9% increase in other miscellaneous income from Ps.94.9 million for the six months ended June 30, 2016 to Ps.140.4 million for the six months ended June 30, 2017, mainly due to the Ps.58.4 million gain generated from the sale of a property during the first half of 2017.

Years Ended December 31, 2015 and 2016

The following table sets forth the principal components of our net income for the years ended December 31, 2015 and 2016.

	Year ended December 31,		% Change
	2015	2016	2015/2016
	(in millions of pesos, except percentages)		
Financial income.....	7,246.6	9,378.0	29.4
Financial expenses.....	(4,212.1)	(6,558.6)	55.7
Net financial income	3,034.5	2,819.4	(7.1)
Provision for loan losses.....	(354.2)	(466.4)	31.7
Income from services, net:			
Net contribution from insurance ⁽¹⁾	1,359.0	1,773.4	30.5
Other income from services, net ⁽²⁾	1,666.5	2,115.0	26.9
Subtotal income from services, net	3,025.5	3,888.4	28.5
Administrative expenses.....	(3,952.6)	(5,014.5)	26.9
Non-controlling interest.....	3.1	(14.7)	(576.3)
Miscellaneous income (expenses), net ⁽³⁾	(51.6)	(80.8)	56.5
Income tax.....	(618.9)	(516.2)	(16.6)
Net income	1,085.8	615.3	(43.3)

(1) Insurance premiums minus insurance claims.

(2) Other income from services minus other expenses for services.

(3) Miscellaneous income minus miscellaneous expenses.

Net Income

Our net income decreased 43.3%, from Ps.1,085.8 million in 2015 to Ps.615.3 million in 2016, primarily as a result of:

- a 55.7% increase in financial expenses of Ps.2,346.5 million;
- a 26.9% increase in administrative expenses of Ps.1,061.9 million;
- a 31.7% increase in provision for loan losses of Ps.112.2 million, and
- a 56.5% increase in income tax of Ps.29.2 million.

These increases were partially offset by:

- a 29.4% increase in financial income of Ps.2,131.4 million; and
- a 28.5% increase in income from services, net of Ps.862.8 million.

Financial Income

The following table sets forth the principal components of our financial income for the years ended December 31, 2015 and 2016.

	Year ended December 31,		% Change
	2015	2016	2015/2016
	(in millions of pesos, except percentages)		
Interest earned on:			
Cash and due from banks	3.7	15.3	316.7
Loans to the financial sector	53.4	100.8	88.8
Overdraft facilities	243.9	209.9	(13.9)
Promissory notes	95.7	129.6	35.4
Mortgage loans.....	433.6	490.5	13.1
Pledge loans	131.3	154.6	17.8
Credit card loans	2,153.7	3,477.6	61.5
Financial leases	28.0	33.4	19.2
Other loans	1,903.1	2,321.0	21.9
Other receivables for financial transactions	22.8	20.5	(10.2)
Net income from government and corporate securities	1,764.3	2,178.7	23.5
CER adjustments	9.6	7.5	(21.9)
Other	403.5	238.8	(40.8)
Total financial income	7,246.6	9,378.0	29.4

The following table sets forth the effects of the changes in average volume of interest-earning assets and average nominal interest rates on our financial income between 2015 and 2016.

	Increase/(decrease) 2015/2016
	(in millions of pesos)
Due to changes in average volume of interest-earning assets	1,211.3
Due to changes in average nominal interest rates.....	920.0
Net change	2,131.3

Our financial income increased 29.4%, from Ps.7,246.6 million in 2015 to Ps.9,378.0 million in 2016, primarily as a result of a 36.3% increase in average interest-earning assets, from Ps.29,864.1 million in 2015 to Ps.40,718.5 million in 2016, and a 7.6% increase in average interest rates, from 24.7% in 2015 to 26.5% in 2016.

The increase in our financial income was driven by:

- a 21.9% increase in income on other loans, from Ps.1,903.1 million in 2015 to Ps.2,321.0 million in 2016, primarily as a result of a 17.4% increase in the average volume of our commercial loans;
- a 61.5% increase in income on credit card loans, from Ps.2,153.7 million in 2015 to Ps.3,477.6 million in 2016, primarily as a result of a 36.5% increase in the average volume of our credit card balances;
- a 23.5% increase in net income from government and corporate securities, from Ps.1,764.3 million in 2015 to Ps.2,178.7 million in 2016, reflecting increased income from our trading activities due to a 62.0% increase in the average volume of our holdings of government and corporate securities; and
- a 40.8% decrease in forwards, (recorded under the caption “Other”), from Ps.319.3 million in 2015 to Ps.63.1 million in 2016.

Financial Expenses

The following table sets forth the principal components of our financial expenses for the years ended December 31, 2015 and 2016.

	Year ended December 31,		% Change
	2015	2016	2015/2016
	(in millions of pesos, except percentages)		
Interest accrued on:			
Savings account deposits	3.0	3.2	9.0
Time deposits	2,110.6	2,992.7	41.8
Inter-financial loans received	16.6	37.1	123.1
Other loans from financial institutions	76.8	138.4	80.2
Other liabilities from financial transactions	942.9	1,873.8	98.7
Subordinated bonds	10.6	26.2	146.8
Other interest	188.9	337.5	78.7
Gold and foreign currency quotation differences	198.1	276.8	39.7
Contributions to the deposits security fund	122.8	60.5	(50.8)
Other	541.8	812.2	49.9
Total financial expenses	4,212.1	6,558.6	55.7

The following table sets forth the effects of the changes in average volume of interest-bearing liabilities and average nominal interest rates on our financial expenses between 2015 and 2016.

	Increase/(decrease)
	2015/2016
	(in millions of pesos)
Due to changes in average volumes of interest-bearing liabilities	(226.9)
Due to changes in average nominal interest rates	2,573.4
Net change	2,346.4

Our financial expenses increased 55.7%, from Ps.4,212.1 million in 2015 to Ps.6,558.6 million in 2016, primarily as a result of a 36.5% increase in average interest-bearing liabilities, from Ps.20,827.3 million in 2015 to Ps.28,438.7 million in 2016, and a 41.0% increase in average interest paid, from 16.8% in 2015 to 23.7% in 2016.

The increase in our financial expenses was driven by:

- a 41.8% increase in interest on time deposits, from Ps.2,110.6 million in 2015 to Ps.2,992.7 million in 2016, primarily as a result of a 31.0% increase in the average volume of our time deposits;
- a 3.2% increase in turnover tax (recorded under the caption "Other"), from Ps.457.2 million in 2015 to Ps.471.6 million in 2016, as a result of higher taxable financial income and an increase in tax rates in certain provinces; and
- a 98.7% increase in interest on other liabilities from financial intermediation, primarily related to an increase on the interest accrued on our outstanding bonds from Ps.942.9 million in 2015 to Ps.1,873.8 million in 2016.

Provision for Loan Losses

Our provision for loan losses increased 31.7%, from Ps.354.2 million in 2015 to Ps.466.4 million in 2016, primarily as a result of the 26.7% growth in our total loan portfolio between December 31, 2015 and December 31, 2016 and an improvement in the quality of our loan portfolio during the same period.

Income from Services, Net

Our income from services, net, increased 28.5% in 2016, from Ps.3,025.6 million in 2015 to Ps.3,888.4 million in 2016, primarily as a result of:

- a 30.5% increase in net contribution from insurance of Ps.414.4 million; and
- a 26.9% increase in other income from services, net of Ps.448.5 million.

Net Contribution from Insurance

The following table sets forth the principal components of our net contribution from insurance for the years ended December 31, 2015 and 2016.

	Year ended December 31,		% Change
	2015	2016	2015/2016
	(in millions of pesos, except percentages)		
Insurance premiums earned			
Life.....	14.9	5.7	(61.4)
Property damage	9.0	3.9	(56.6)
Unemployment.....	0.1	0.0	(73.4)
Other	114.7	149.0	29.9
Subsidiaries	1,451.6	1,991.5	37.2
Total insurance premiums earned	<u>1,590.3</u>	<u>2,150.2</u>	35.2
Insurance claims			
Life.....	3.9	2.7	(30.9)
Property damage	0.1	0.3	130.3
Other	0.6	0.9	55.7
Subsidiaries	226.7	373.0	64.5
Total insurance claims	<u>231.3</u>	<u>376.8</u>	62.9
Net contribution from insurance.....	<u>1,359.0</u>	<u>1,773.4</u>	30.5

Our net contribution from insurance increased 30.5%, from Ps.1,359.0 million in 2015 to Ps.1,773.4 million in 2016 primarily, as a result of an increase in insurance premiums earned in 2016 of Ps.559.9 million, at a greater rate than total insurance claims, which increased Ps.145.5 million during the same period. The growth of our insurance premiums earned in 2016 was primarily due to the higher activity level of our subsidiary BHN Sociedad de Inversión (recorded under “Subsidiaries”), as a result of an increase in life and property damage insurance products sold to clients of the PROCREAR Trust. The growth of the PROCREAR Trust is due to an increase in mortgage loans granted, which require life insurance. For more information, see “Business—Lines of Business—Trustee Services for PROCREAR Trust”.

Other Income from Services, Net

The following table sets forth the principal components of our other income from services, net for the years ended December 31, 2015 and 2016.

	Year ended December 31,		% Change
	2015	2016	2015/2016
	(in millions of pesos, except percentages)		
Other income from services			
Loan servicing fees from third parties.....	79.1	116.8	47.6
Liability products fees.....	177.0	135.1	(23.7)
Credit card fees	1,305.6	2,107.2	61.4
Other fees	782.4	630.6	(19.4)
Total other income from services.....	<u>2,344.1</u>	<u>2,989.7</u>	27.5
Other expenses for services			
Loan fees.....	60.9	57.4	(5.8)
Structuring and underwriting fees	43.9	35.2	(19.5)
Contributions and taxes on income from services.....	99.9	112.2	12.4
Borrowing transactions	30.8	49.7	61.1
Credit card fees	361.5	423.9	17.3
Other fees	80.7	196.2	143.0
Total other expenses for services	<u>677.6</u>	<u>874.6</u>	29.1
Total net other income from services	<u>1,666.5</u>	<u>2,115.0</u>	26.9

Our other income from services, net increased 26.9%, from Ps.1,666.5 million in 2015 to Ps.2,115.0 million in 2016, primarily as a result of a Ps.739.2 million increase in fees due to credit card origination both from

us as well as Tarshop and an increase of Ps.57.4 million in fees related to our activities as trustee in the PROCREAR Trust (recorded under “Other fees” in other income from services).

Administrative Expenses

The following table sets forth the principal components of our administrative expenses for the years ended December 31, 2015 and 2016.

	Year ended December 31,		% Change
	2015	2016	2015/2016
	(in millions of pesos, except percentages)		
Personnel expenses	2,192.7	2,566.1	17.0
Other fees ⁽¹⁾	437.2	661.0	51.2
Directors' and syndics' fees.....	90.8	52.5	(42.2)
Advertising and publicity	173.4	117.0	(32.5)
Value added tax and other taxes	213.2	253.6	18.9
Depreciation and amortization.....	145.0	229.7	58.4
Other operating expenses.....	407.9	665.3	63.1
Other	292.4	469.3	60.5
Total administrative expenses	3,952.6	5,014.5	26.9

(1) Consists primarily of: legal, notarial, accounting and tax consulting services, temporary personnel, consulting services and collection services.

Our administrative expenses increased 26.9%, from Ps.3,952.6 million in 2015 to Ps.5,014.5 million in 2016, primarily as a result of:

- a 17.0% increase in personnel expenses, from Ps.2,192.7 million in 2015 to Ps.2,566.1 million in 2016, primarily as a result of higher salaries and social security contributions required under applicable regulations in Argentina mainly as a result of salary adjustments negotiated between banks and the union;
- a 63.1% increase in other operating expenses, from Ps.407.9 million in 2015 to Ps.665.3 million in 2016; and
- a 51.2% increase in other fees, from Ps.437.2 million in 2015 to Ps.661.0 million in 2016, primarily as a result of increased expenses in system development.

Miscellaneous Income, Net

The following table sets forth our miscellaneous income, net, for the years ended December 31, 2015 and 2016.

	Year ended December 31		% Change
	2015	2016	2015/2016
	(in millions of pesos, except percentages)		
Miscellaneous Income			
Results from permanent equity interests	13.8	35.7	159.0
Penalty interest	98.4	97.0	(1.4)
Loans recovered and allowances reversed.....	265.5	219.6	(17.3)
Other.....	117.3	160.3	36.6
Total miscellaneous income	495.0	512.6	3.5
Miscellaneous Expenses			
Penalty interest and charges in favor of Central Bank.....	0.3	0.6	107.5
Loan loss provision for miscellaneous receivables and other provisions.....	172.0	164.9	(4.1)
Depreciation and loss of miscellaneous assets	0.5	0.5	(0.8)
Amortization of goodwill	3.4	3.4	—
Other.....	370.4	423.9	14.4
Total miscellaneous expenses.....	546.6	593.4	8.5
Total net miscellaneous income (loss)	(51.6)	(80.8)	(56.5)

Our total miscellaneous income, net, decreased 56.5%, from a net loss of Ps.51.6 million in 2015 to a net loss of Ps.80.8 million in 2016, primarily as a result of a 14.4% increase in other miscellaneous expenses, from Ps.370.4 million in 2015 to Ps.423.9 million in 2016, primarily as a result of higher taxes paid for provincial and municipal taxes.

This increase in miscellaneous expenses, net, was partially offset by a 159.0% increase in results from permanent equity interests, from Ps.13.8 million in 2015 to Ps.35.7 million in 2016, primarily as a result of higher income generated by the mutual guarantee companies' risk funds.

Years Ended December 31, 2014 and 2015

The following table sets forth the principal components of our net income for the years ended December 31, 2014 and 2015.

	Year ended December 31,		% Change
	2014	2015	2014/2015
	(in millions of pesos, except percentages)		
Financial income	5,294.9	7,246.6	36.9
Financial expenses	(2,973.4)	(4,212.1)	41.7
Net financial income	2,321.5	3,034.5	30.7
Provision for loan losses	(343.4)	(354.2)	3.1
Income from services, net:			
Net contribution from insurance ⁽¹⁾	840.6	1,359.0	61.7
Other income from services, net ⁽²⁾	1,069.3	1,666.5	55.9
Subtotal income from services, net	1,909.9	3,025.5	58.4
Administrative expenses	(2,855.7)	(3,952.6)	38.4
Non-controlling interest	25.7	3.1	(88.0)
Miscellaneous income (expenses), net ⁽³⁾	(81.2)	(51.6)	(36.4)
Income tax	(426.6)	(618.9)	45.1
Net income	550.0	1,085.8	97.4

(1) Insurance premiums minus insurance claims.

(2) Other income from services minus other expenses for services.

(3) Miscellaneous income minus miscellaneous expenses.

Net Income

Our net income increased 97.4%, from Ps.550.0 million in 2014 to Ps.1,085.8 million in 2015, primarily as a result of:

- a 36.9% increase in financial income of Ps.1,951.7 million; and
- a 58.4% increase in income from services, net of Ps.1,115.7 million.

These increases were partially offset by:

- a 41.7% increase in financial expenses of Ps.1,238.7 million;
- a 38.4% increase in administrative expenses of Ps.1,096.9 million; and
- a 45.1% increase in income tax of Ps.192.3 million.

Financial Income

The following table sets forth the principal components of our financial income for the years ended December 31, 2014 and 2015.

	Year ended December 31,		% Change
	2014	2015	2014/2015
	(in millions of pesos, except percentages)		
Interest earned on:			
Cash and due from banks.....	—	3.7	NM ⁽¹⁾
Loans to the financial sector.....	61.9	53.4	(13.8)
Overdraft facilities.....	286.3	243.9	(14.8)
Promissory notes.....	109.0	95.7	(12.2)
Mortgage loans.....	358.2	433.6	21.0
Pledge loans.....	25.6	131.3	NM ⁽¹⁾
Credit card loans.....	1,462.0	2,153.7	47.3
Financial leases.....	16.5	28.0	69.9
Other loans.....	1,527.8	1,903.1	24.6
Other receivables for financial transactions.....	24.3	22.8	(6.3)
Net income from government and corporate securities.....	974.6	1,764.3	81.0
CER adjustments.....	32.4	9.6	(70.3)
Other.....	416.3	403.5	(3.1)
Total financial income	5,294.9	7,246.6	36.9

(1) Not meaningful.

The following table sets forth the effects of the changes in average volume of interest-earning assets and average nominal interest rates on our financial income between 2014 and 2015. For more information, see “Business—Lines of Business—Trustee Services for PROCREAR Trust.

	Increase/(decrease)
	2014/2015
	(in millions of pesos)
Due to changes in average volume of interest-earning assets.....	1,702.7
Due to changes in average nominal interest rates.....	249.0
Net change	1,951.7

Our financial income increased 36.9%, from Ps.5,294.9 million in 2014 to Ps.7,246.6 million in 2015, primarily as a result of a 32.0% increase in average interest-earning assets, from Ps.22,623.3 million in 2014 to Ps.29,864.1 million in 2015, and a 3.9% increase in average interest rates, from 23.7% in 2014 to 24.7% in 2015.

The increase in our financial income was driven by:

- a 24.6% increase in income on other loans, from Ps.1,527.8 million in 2014 to Ps.1,903.1 million in 2015, primarily as a result of a 28.2% increase in the average volume of our commercial loans;
- a 47.3% increase in income on credit card loans, from Ps.1,462.0 million in 2014 to Ps.2,153.7 million in 2015, primarily as a result of a 41.4% increase in the average volume of our credit card balances; and
- a 81.0% increase in net income from government and corporate securities, from Ps.974.6 million in 2014 to Ps.1,764.3 million in 2015, reflecting increased income from our trading activities due to a 38.2% increase in the average volume of our holdings of government and corporate securities.

Financial Expenses

The following table sets forth the principal components of our financial expenses for the years ended December 31, 2014 and 2015.

	Year ended December 31,		% Change
	2014	2015	2014/2015
	(in millions of pesos, except percentages)		
Interest accrued on:			
Savings account deposits	2.0	3.0	48.2
Time deposits	1,507.0	2,110.6	40.1
Inter-financial loans received	14.6	16.6	13.9
Other loans from financial institutions	84.3	76.8	(8.9)
Other liabilities from financial transactions	602.7	942.9	56.4
Subordinated bonds	—	10.6	NM ⁽¹⁾
Other interest	152.1	188.9	24.2
Gold and foreign currency quotation differences	108.9	198.1	81.9
Contributions to the deposits security fund	35.1	122.8	NM ⁽¹⁾
Other	466.6	541.8	16.1
Total financial expenses	2,973.3	4,212.1	41.7

(1) Not meaningful.

The following table sets forth the effects of the changes in average volume of interest-bearing liabilities and average nominal interest rates on our financial expenses between 2014 and 2015. See “Selected Statistical Information—Changes in Interest Income and Interest Expenses; Volume and Rate Analysis”.

	Increase/(decrease)
	2014/2015
	(in millions of pesos)
Due to changes in average volumes of interest-bearing liabilities	1,160.1
Due to changes in average nominal interest rates	78.6
Net change	1,238.8

Our financial expenses increased 41.7%, from Ps.2,973.3 million in 2014 to Ps.4,212.1 million in 2015, primarily as a result of a 34.2% increase in average interest-bearing liabilities, from Ps.15,520.5 million in 2014 to Ps.20,827.3 million in 2015, and a 1.6% increase in average interest paid, from 16.5% in 2014 to 16.8% in 2015.

The increase in our financial expenses was driven by:

- an 40.1% increase in interest on time deposits, from Ps.1,507.0 million in 2014 to Ps.2,110.6 million in 2015, primarily as a result of a 32.9% increase in the average volume of our time deposits;
- a 31.8% increase in turnover tax (recorded under the caption “Other”), from Ps.349.0 million in 2014 to Ps.460.1 million in 2015, as a result of higher taxable financial income and an increase in tax rates in certain provinces; and
- a 56.4% increase in interest on other liabilities from financial intermediation, primarily related to an increase on the interest accrued on our outstanding bonds from Ps.585.2 million in 2014 to Ps.898.2 million in 2015.

Provision for Loan Losses

Our provision for loan losses increased 3.1%, from Ps.343.4 million in 2014 to Ps.354.2 million in 2015, primarily as a result of the 25.7% growth in our total loan portfolio between December 31, 2014 and December 31, 2015.

Income from Services, Net

Our income from services, net, increased 58.4% in 2015, from Ps.1,909.9 million in 2014 to Ps.3,025.6 million in 2015, primarily as a result of:

- a 61.7% increase in net contribution from insurance of Ps.518.4 million; and
- a 55.9% increase in other income from services, net of Ps.597.2 million.

Net Contribution from Insurance

The following table sets forth the principal components of our net contribution from insurance for the years ended December 31, 2014 and 2015.

	Year ended December 31,		% Change
	2014	2015	2014/2015
	(in millions of pesos, except percentages)		
Insurance premiums earned			
Life	25.6	14.9	(42.0)
Property damage	11.9	9.0	(23.8)
Unemployment	0.2	0.1	(52.5)
Other	72.8	114.7	57.7
Subsidiaries	868.3	1,451.6	67.2
Total insurance premiums earned	<u>978.8</u>	<u>1,590.3</u>	62.5
Insurance claims			
Life	3.7	3.9	4.1
Property damage	0.3	0.1	(54.0)
Other	0.6	0.6	(1.1)
Subsidiaries	133.6	226.7	69.6
Total insurance claims	<u>138.2</u>	<u>231.3</u>	67.3
Net contribution from insurance	<u>840.6</u>	<u>1,359.0</u>	61.7

Our net contribution from insurance increased 61.7%, from Ps.840.6 million in 2014 to Ps.1,359.0 million in 2015 primarily, as a result of an increase in insurance premiums earned in 2015 of Ps.611.5 million, at a greater rate than total insurance claims, which increased Ps.93.1 million during the same period. The growth of our insurance premiums earned in 2015 was primarily due to the higher activity level of our subsidiary BHN Sociedad de Inversión (recorded under “Subsidiaries”), as a result of an increase in life and property damage insurance products sold to clients of the PROCREAR Trust. The growth of the PROCREAR Trust is due to an increase in mortgage loans granted, which require life insurance. For more information, see “Business—Lines of Business—Trustee Services for PROCREAR Trust”.

Other Income from Services, Net

The following table sets forth the principal components of our other income from services, net for the years ended December 31, 2014 and 2015.

	Year ended December 31,		% Change
	2014	2015	2014/2015
	(in millions of pesos, except percentages)		
Other income from services			
Loan servicing fees from third parties	67.0	79.1	18.1
Liability products fees	116.6	177.0	51.8
Credit card fees	874.2	1,305.6	49.3
Other fees	572.9	782.4	36.6
Total other income from services	<u>1,630.7</u>	<u>2,344.1</u>	43.8
Other expenses for services			
Loan fees	47.8	60.9	27.5
Structuring and underwriting fees	13.9	43.9	215.0
Contributions and taxes on income from services	56.3	99.9	77.3
Borrowing transactions	32.1	46.5	45.0
Credit card fees	236.3	361.5	53.0
Other fees	175.0	64.9	(62.9)
Total other expenses for services	<u>561.4</u>	<u>677.6</u>	20.7
Total net other income from services	<u>1,069.3</u>	<u>1,666.5</u>	55.9

Our other income from services, net increased 55.9%, from Ps.1,069.3 million in 2014 to Ps.1,666.5 million in 2015, primarily as a result of a Ps.306.2 million increase in fees due to credit card origination both from us as well as Tarshop and an increase of Ps.134.5 million in fees related to our activities as trustee in the PROCREAR Trust (recorded under “Other fees” in other income from services).

Administrative Expenses

The following table sets forth the principal components of our administrative expenses for the years ended December 31, 2014 and 2015.

	Year ended December 31,		% Change
	2014	2015	2014/2015
	(in millions of pesos, except percentages)		
Personnel expenses	1,579.6	2,192.7	38.8
Other fees ⁽¹⁾	293.2	437.2	49.1
Directors' and syndics' fees	56.0	90.8	62.2
Advertising and publicity	171.9	173.4	0.9
Value added tax and other taxes	145.5	213.2	46.5
Depreciation and amortization	84.4	145.0	71.7
Other operating expenses	321.2	407.9	27.0
Other	204.1	292.4	43.4
Total administrative expenses	2,855.9	3,952.6	38.4

(1) Consists primarily of: legal, notarial, accounting and tax consulting services, temporary personnel, consulting services and collection services.

Our administrative expenses increased 38.4%, from Ps.2,855.9 million in 2014 to Ps.3,952.6 million in 2015, primarily as a result of:

- a 38.8% increase in personnel expenses, from Ps.1,579.6 million in 2014 to Ps.2,192.7 million in 2015, primarily as a result of higher salaries and social security contributions required under applicable regulations in Argentina mainly as a result of salary adjustments negotiated between banks and the union;
- a 27.0% increase in other operating expenses, from Ps.321.2 million in 2014 to Ps.407.9 million in 2015; and
- a 49.1% increase in other fees, from Ps.293.2 million in 2014 to Ps.437.2 million in 2015, primarily as a result of greater expenses in system development.

Miscellaneous Income, Net

The following table sets forth our miscellaneous income, net, for the years ended December 31, 2014 and 2015.

	Year ended December 31,		% Change
	2014	2015	2014/2015
	(in millions of pesos, except percentages)		
Miscellaneous Income			
Results from permanent equity interests.....	3.7	13.8	273.0
Penalty interest	77.3	98.4	27.2
Loans recovered and allowances reversed.....	105.3	265.5	152.1
Other.....	94.2	117.3	24.7
Total miscellaneous income	280.5	495.0	76.4
Miscellaneous Expenses			
Penalty interests and charges in favor of the Central Bank	0.9	0.3	(67.9)
Loan loss provision for miscellaneous receivables and other provisions	116.6	172.0	47.7
Depreciation and loss of miscellaneous assets.....	0.3	0.5	50.4
Amortization of goodwill	3.4	3.4	0.0
Other.....	240.5	370.4	53.9
Total miscellaneous expenses.....	361.7	546.6	51.1
Total net miscellaneous income (loss)	(81.2)	(51.6)	(36.4)

Our total miscellaneous income, net, increased 36.4%, from a net loss of Ps.81.2 million in 2014 to a net loss of Ps.51.6 million in 2015, primarily as a result of:

- a 152.1% increase in our loans recovered and allowances reversed, from Ps.105.3 million in 2014 to Ps.265.5 million in 2015, primarily as a result of an increase in the loans portfolio and higher allowances; and
- a 24.7% increase in other miscellaneous income from Ps.94.2 million in 2014 to Ps.117.3 million in 2015, primarily as a result of (i) higher income from loans granted to employees and (ii) higher total miscellaneous income generated by our subsidiaries.

These increases in miscellaneous income, net, were partially offset by:

- an 47.7% increase in loan loss provision for miscellaneous receivables and other provisions, from Ps.116.6 million in 2014 to Ps.172.0 million in 2015, primarily as a result of provisions related to salary rises negotiated between banks and the union; and
- a 53.9% increase in other miscellaneous expenses, from Ps.240.5 million in 2014 to Ps.370.4 million in 2015, primarily as a result of higher activity levels of our subsidiaries and the payment of a Ps.53.6 million penalty related to the summary Resolution No. 685/14. See “Business—Litigation—Court Proceedings”.

Financial Condition

Total Assets

June 30, 2017

As of June 30, 2017, we had total assets of Ps.55,261.9 million, which represented a 6.1% increase from Ps.52,108.1 million as of December 31, 2016.

This increase was mainly due to: (i) a 14.7% increase in loans from Ps.27,163.9 million as of December 31, 2016 to Ps.31,167.5 million as of June 30, 2017; (ii) a 328.0% increase in miscellaneous assets of Ps.296.1 million as of December 31, 2016 to Ps.1,267.0 million as of June 30, 2017; (iii) a 12.1% increase in fixed assets of Ps.390.2 million as of December 31, 2016 to Ps.437.6 million as of June 30, 2017; (iv) a 61.7% increase in government securities of Ps.4,997.6 million as of December 31, 2016 to Ps.8,082.1 million as of June 30, 2017; partially offset by a 14.2% decrease in other financial intermediation loans from Ps.9,262.1 million as of December 31, 2016 to

Ps.7,943.0 million as of June 30, 2017 and a decrease of 52.2% in cash and cash equivalents of Ps.7,188.3 million as of December 31, 2016 to Ps.3,435.3 million as of June 30, 2017.

2015/2016

As of December 31, 2016 we had total assets of Ps.52,108.1 million, which represented a 32.1% increase from Ps.39,457.9 million as of December 31, 2015.

This increase was mainly due to: (i) a 33.4% increase in loans net of allowances from Ps.20,369.9 million as of December 31, 2015 to Ps.27,163.9 million as of December 31, 2016; (ii) a 103.4% increase in other receivables from financial transactions from Ps.4,553.3 million as of December 31, 2015 to Ps.9,262.1 million as of December 31, 2016; (iii) a 354.6% increase in miscellaneous assets from Ps.65.1 million as of December 31, 2015 to Ps.296.1 million as of December 31, 2016; (iv) a 60.7% increase in bank premises and equipment from Ps.242.8 million as of December 31, 2015 to Ps.390.2 million as of December 31, 2016; (v) a 18.6% increase in intangible assets from Ps.478.2 million as of December 31, 2015 to Ps.567.4 million as of December 31, 2016; (vi) a 18.0% increase in miscellaneous receivables from Ps.1,673.6 million as of December 31, 2015 to Ps.1,974.2 million as of December 31, 2016; partially offset by a 8.2% decrease in government and corporate securities from Ps.5,446.3 million as of December 31, 2015 to Ps.4,997.6 as of December 31, 2016.

2014/2015

As of December 31, 2015 we had total assets of Ps.39,457.9 million, which represented a 25.9% increase from Ps.31,351.5 million as of December 31, 2014.

This increase was mainly due to: (i) a 18.8% increase in cash and due from banks from Ps.5,368.5 million as of December 31, 2014 to Ps.6,378.8 million as of December 31, 2015; (ii) a 20.5% increase in government and corporate securities from Ps.4,518.0 million as of December 31, 2014 to Ps.5,446.3 million as of December 31, 2015; (iii) a 18.2% increase in loans net of allowances from Ps.17,239.5 million as of December 31, 2014 to Ps.20,369.9 million as of December 31, 2015; (iv) a 92.4% increase in other receivables from financial transactions from Ps.2,366.2 million as of December 31, 2014 to Ps.4,553.3 million as of December 31, 2015; (v) a 21.1% increase in assets from financial leases from Ps.107.5 million as of December 31, 2014 to Ps.130.3 million as of December 31, 2015; (vi) a 135.5% increase in investments in other companies from Ps.47.9 million as of December 31, 2014 to Ps.112.9 million as of December 31, 2015; (vii) a 47.5% increase in miscellaneous assets from Ps.1,134.5 million as of December 31, 2014 to Ps.1,673.6 million as of December 31, 2015; (viii) a 47.0% increase in bank premises and equipment from Ps.165.2 million as of December 31, 2014 to Ps.242.8 million as of December 31, 2015; (ix) a 8.9% increase in miscellaneous assets from Ps.59.8 million as of December 31, 2014 to Ps.65.1 million as of December 31, 2015; (x) a 39.5% increase in intangible assets from Ps.342.9 million as of December 31, 2014 to Ps.478.2 million as of December 31, 2015; and (xi) a 395.0% increase in items pending allocation from Ps.1.4 million as of December 31, 2014 to Ps.6.8 million as of December 31, 2015.

Total Liabilities and Shareholders' Equity

June 30, 2017

As of June 30, 2017, we had total liabilities and non-controlling interests in subsidiaries of Ps.48,580.7 million, which represented a 5.5% increase from Ps.46,051.9 million as of December 31, 2016.

This increase was mainly due to: (i) a 6.5% increase in other financial intermediation obligations from Ps.24,187.3 million as of December 31, 2016 to Ps.25,753.8 million as of June 30, 2017; (ii) an increase of 7.1% in provisions from Ps.325.8 million as of December 31, 2016 to Ps.348.8 million as of June 30, 2017; (iii) a 1.0% increase in miscellaneous obligations from Ps.2,220.2 million as of December 31, 2016 to Ps.2,242.5 million as of June 30, 2017; and (iv) an increase of 4.7% in deposits from Ps.18,985.0 million as of December 31, 2016 to Ps.19,883.0 million as of June 30, 2017.

Shareholders' equity increased from Ps.6,056.3 million as of December 31, 2016 to Ps.6,681.2 million as of June 30, 2017. The increase of 10.3% represented a net income of Ps.625.0 million for the six months ended June 30, 2017.

2015/2016

As of December 31, 2016, we had total liabilities and non-controlling interest in subsidiaries of Ps.46,051.9 million, which represented a 35.4% increase from Ps.34,017.0 million as of December 31, 2015.

The increase was mainly due to: (i) a 121.4% increase in other liabilities for financial transactions from Ps.10,924.7 million as of December 31, 2015 to Ps.24,187.3 million as of December 31, 2016; (ii) a 23.7% increase in subordinated bonds from Ps.110.6 million as of December 31, 2015 to Ps.136.8 million as of December 31, 2016; (iii) a 26.7% increase in provisions from Ps.257.2 million as of December 31, 2015 to Ps.325.8 million as of December 31, 2016; and (iv) a 0.9% increase in miscellaneous liabilities from Ps.2,200.8 million as of December 31, 2015 to Ps.2,220.2 million as of December 31, 2016, partially offset by a 6.9% decrease in deposits from Ps.20,392.2 million as of December 31, 2015 to Ps.18,985.0 as of December 31, 2016.

Shareholders' equity increased from Ps.5,440.9 million as of December 31, 2015 to Ps.6,056.2 million as of December 31, 2016. The 11.3% increase represents net income of Ps.615.3 million for the year ended December 31, 2016.

2014/2015

As of December 31, 2015, we had total liabilities and non-controlling interest in subsidiaries of Ps.34,017.0 million, which represented a 26.2% increase from Ps.26,954.6 million as of December 31, 2014.

The increase was mainly due to: (i) a 11.2% increase in deposits from Ps.18,334.1 million as of December 31, 2014 to Ps.20,392.2 million as of December 31, 2015; (ii) a 68.7% increase in other liabilities from financial transactions from Ps.6,475.4 million as of December 31, 2014 to Ps.10,924.7 million as of December 31, 2015; (iii) a 23.5% increase in miscellaneous liabilities from Ps.1,781.6 million as of December 31, 2014 to Ps.2,200.8 million as of December 31, 2015; and (iv) the issue of subordinated bonds which amounted to Ps.110.6 million as of December 31, 2015.

Shareholders' equity increased from Ps.4,396.9 million as of December 31, 2014 to Ps.5,440.9 million as of December 31, 2015. The 23.7% increase represents net income of Ps.1,085.8 million for the year ended December 31, 2015, which was partially offset by a dividend payment of Ps.42.0 million.

Significant Changes in Financial Condition

June 30, 2017

Cash decreased 52.2% from Ps.7,188.3 million as of December 31, 2016 to Ps.3,435.3 million as of June 30, 2017, mainly due to the growth in loan placement and the purchase of debt instruments issued by the Central Bank.

Miscellaneous assets increased 328.0% or Ps.971.0 million from December 31, 2016 to June 30, 2017, mainly as a result of the payment of 85% of the purchase price due on "Edificio del Plata".

Other financial intermediation obligations increased by 6.5% or Ps.1,566.5 million from December 31, 2016 to June 30, 2017, mainly as a result of a greater number of outstanding notes we issued.

2015/2016

Cash on hand and cash due from banks increased 2.78% from Ps.6,378.8 million as of December 31, 2015 to Ps.7,188.3 million in December 31, 2016, mainly due to the payment of our Series V note that matured on April 27, 2016.

Our deposits decreased Ps.1,407.2 million, or 6.9%, between December 31, 2015 and December 31, 2016, mainly due to a decrease in non financial public sector deposits.

Other liabilities from financial transactions increased Ps.13,262.6 million from December 31, 2015 to December 31, 2016, representing a 121.4% increase, primarily as a result of a higher amount of outstanding negotiable obligations.

2014/2015

Cash on hand and cash due from banks increased 18.8% from Ps.5,368.5 million as of December 31, 2014 to Ps.6,378.8 million in December 31, 2015, mainly due to the increase in the amount deposited in the Central Bank.

Government and corporate securities increased 20.5% between December 31, 2014 and December 31, 2015, primarily due to the increase in holdings of Argentine government bonds.

Our loans to the corporate sector totaled Ps.20,369.9 million as of December 31, 2015, which represented an increase of 18.2% compared to December 31, 2014. Both credit card loans and personal loans grew 38.4% and 26.1%, respectively, during the years ended December 31, 2014 and 2015.

Our deposits increased to Ps.2,058.1 million from December 31, 2014 to December 31, 2015. Non-financial public sector deposits decreased Ps.2,280.9 million mainly due to deposits made on the last day of 2014 which were withdrawn on the first business day of 2015. Regarding non-financial private sector deposits, time deposits increased 70.3%, over the same period.

Other liabilities from financial transactions increased Ps.4,449.4 million from December 31, 2014 to December 31, 2015, primarily as a result of a higher amount of outstanding negotiable obligations.

Liquidity and Capital Resources

Funding

We finance our lending operations primarily through:

- deposits, principally time deposits;
- the issuance of fixed and floating rate securities in the domestic and international capital markets;
- the securitization of loans; and
- cash flow from existing loans.

The table below sets forth our outstanding liabilities with respect to each of our principal sources of funding as of the dates indicated:

	As of December 31,			As of June 30,
	2014	2015	2016	2017
	(in millions of pesos)			
Deposits.....	18,334.1	20,392.2	18,985.0	19,883.0
Borrowings from financial institutions.....	327.5	627.6	707.5	421.0
Unsubordinated negotiable obligations	4,460.0	7,157.9	16,566.5	19,323.8
Shareholders' equity.....	4,396.9	5,440.9	6,056.2	6,681.2
Total funding	27,518.5	33,618.6	42,315.2	46,309.0

Deposits

We did not historically rely upon deposits as a principal source of funding, as we engaged in limited deposit taking activities. Our deposits consisted of checking accounts maintained by different provincial housing funds and agencies representing Argentine government contributions from the collection of federal taxes, which were set aside for use by the provinces for special purposes and transferred to these accounts. In 2004, we started to take deposits from private and public investors.

After several years of continuous growth, deposits constitute our principal source of funding as of June 30, 2017. As of the dates indicated, our total deposits consisted of the following:

	As of December 31,			As of June 30,		
	2014	2015	2016	2016	2017	2017
	(in millions of Ps.)			(in millions of Ps.)		
				(in millions of US\$ ⁽¹⁾)		
Deposits						
Non-financial public sector	9,100.8	6,820.0	2,536.8	3,534.9	2,853.8	171.9
Financial sector	7.4	8.4	6.4	6.4	6.7	0.4
Non-financial private sector and foreign residents						
Checking accounts.....	760.5	648.3	881.4	653.1	830.1	50.0
Savings accounts	2,479.6	2,502.5	3,329.9	2,848.4	4,099.0	247.0
Term deposits	4,983.8	8,489.8	10,613.1	9,385.3	10,542.8	635.2
Investment accounts	713.4	1,550.1	1,013.9	944.8	1,108.7	66.8
Other	156.1	171.9	318.1	167.2	238.9	14.4
Interest and foreign currency gains payable	132.4	201.3	285.4	253.5	203.0	12.2
Total non-financial private sector and foreign residents	9,225.8	13,563.9	16,441.8	14,252.3	17,022.5	1,025.6
Total deposits	18,334.0	20,392.3	18,985.0	17,793.5	19,883	1,197.9

⁽¹⁾ The exchange rate used for purposes of translation of balances as of December 31, 2016 was Ps.15.8502 = US\$1.00 and as of June 30, 2017 it was Ps.16.5985 = US\$1.00.

Our Notes

The table below sets forth the issue dates, maturity dates, interest rates and the outstanding principal amounts of the notes issued by us and our subsidiaries as of June 30, 2017:

As of June 30, 2017				
	Issue Date	Maturity Date	Interest Rate	Outstanding Principal Amount
	(in millions of Ps.)			
BH Program				
Series XII (US\$44,508,000)	08/14/2013	08/14/2017	3.95%	489.4
Series XXIX (US\$200,000,000)	11/30/2015	11/30/2020	9.75%	3,304.7
Series XXIX Tranche II (US\$150,000,000)	05/23/2016	11/30/2020	9.75%	2,489.8
Series XXXI (US\$14,730,000)	09/04/2015	09/04/2018	2.00%	244.5
Series XXXIV (Ps.264,030,000)	02/10/2016	08/10/2017	Badlar + 4.00%	264.0
Series XXXV (Ps.235,970,000)	02/10/2016	02/10/2019	Badlar + 4.99%	236.0
Series XXXVI (Ps.469,750,000)	05/18/2016	11/18/2017	Badlar + 4.25%	469.8
Series XXXVIII (Ps.145,200,000)	08/18/2016	02/18/2018	Badlar + 3.00%	145.2
Series XXXIX (Ps.343,241,000)	08/18/2016	08/18/2019	Badlar + 3.49%	343.2
Series XL (Ps.6,078,320,000)	10/12/2016	12/01/2020	Badlar + 2.50%	5,634.9
Series XLI (Ps.354,362,000)	02/20/2017	08/20/2018	Badlar + 2.89bp	331.2
Series XLII (Ps.645,638,000)	02/20/2017	02/20/2020	Badlar + 3.20bp	630.7
Series XLIII (UVA 54,605,876)	05/08/2017	05/08/2020	2.75%	1,034.9
Series XLIV (Ps.256,644,000)	05/08/2017	11/08/2018	Badlar + 2.75bp	255.1
Series XLV (Ps.102,436,000)	05/08/2017	05/08/2020	Badlar + 2.98bp	101.8
Tarshop Program				
Series XIX (Ps.6,315,789)	11/26/2014	11/26/2017	Badlar + 5.25%	6.3
Series XXVI (Ps.156,971,808)	01/26/2016	07/26/2017	Badlar + 6.50%	155.7
Series XXVII (Ps.147,288,000)	05/04/2016	11/04/2017	Badlar + 6.00%	146.1
Class I (Ps.204.033.333)	09/07/2016	03/07/2018	Badlar + 4.48%	202.4
Class II (Ps.67.360.000)	09/07/2016	03/07/2019	Badlar + 4.99%	66.8
Class IV (Ps.213,031,000)	11/04/2016	05/04/2018	Badlar + 4.00%	211.3
Class V (Ps.77,818,000)	11/04/2016	05/04/2019	Badlar + 4.25%	77.2
Class VII (Ps.229,000,000)	01/24/2017	07/24/2018	Badlar + 4.00bp	227.2
Class VIII (Ps.53,237,500)	01/24/2017	07/24/2019	Badlar + 4.69bp	52.8
Class IX (Ps.288,444,445)	04/20/2017	10/20/2018	Badlar + 4.00bp	286.1
Class X (Ps.211,555,555)	04/20/2017	10/20/2019	Badlar + 4.74bp	209.9
BACS Program				
Series VII (Ps.142,602,000)	02/18/2016	11/18/2017	Badlar + 4.75%	95.1
Series VIII (Ps.150,000,000)	05/24/2016	11/24/2017	Badlar + 4.39%	150.0
Series IX (Ps.249,500,000)	07/27/2016	07/27/2018	Badlar + 3.45%	249.5
Series X (Ps.91,000,000)	11/10/2016	05/11/2018	Badlar + 3.75%	91.0
Series XI (Ps.201,000,000)	11/10/2016	11/10/2019	Badlar + 4.00%	201.0
Class XII (Ps.98,461,000)	04/28/2017	10/28/2018	Badlar + 3.00%	98.5
Class (Ps.201,539,000)	04/28/2017	04/28/2020	Badlar + 3.50%	201.5
				18,703.6

The following table sets forth the scheduled maturities of our unsubordinated notes as of June 30, 2017:

As of June 30, 2017							
	Less than a year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
	(in millions of pesos)						
Banco Hipotecario	1,368.4	1,066.8	7,745.5	5,794.5	—	—	15,975.2
Tarshop	721.8	657.3	262.7	—	—	—	1,641.8
BACS*	336.1	348.0	402.5	—	—	—	1,086.6
Total indebtedness	2,426.3	2,072.1	8,410.7	5,794.5	—	—	18,703.6

*Does not include BACS' subordinated bonds issued in an aggregate principal amount of Ps.100 million.

Minimum Capital Requirements

The table below sets forth our excess capital, which represents our capital that exceeds the Central Bank's minimum reserve requirements, as of the dates indicated:

	As of December 31,			As of June 30,
	2014	2015	2016	2017
	(in thousands of pesos, except percentages)			
Ordinary capital level 1	4,441,535	5,264,169	6,134,433	6,692,122
Deductible items level 1	(342,014)	(527,915)	(575,576)	(585,524)
Additional capital level 1	—	—	—	20,248
Capital level 2	167,539	296,794	359,236	310,528
Deductible items level 2	—	(2,065)	—	—
Total capital under Central Bank Accounting Rules	4,267,060	5,030,983	5,918,093	6,437,374
Excess capital	2,160,294	2,258,670	2,078,498	2,042,182
Excess capital / required capital	102.54%	81.47%	54.13%	46.46%

Loan Securitization Program

We and our subsidiaries, BACS and Tarshop, have entered into several financial trust agreements whereby we, as trustor, assign the fiduciary ownership of mortgage and consumer loans to different financial institutions, who act as trustee. Once the loans are assigned to the trust, the trust proceeds are used to issue debt securities and participation certificates in the amount of the assigned loan.

The trustee is generally responsible for the management of the trust formed in accordance with the terms and conditions of each trust agreement.

Interest Rate Sensitivity

A key element of our asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity measures the change in net financial income as assets and liabilities re-price following a change in market interest rates. An asset and liability structure is matched when an equal amount of assets and liabilities re-price as a result of a change in interest rates. Any difference between re-pricing assets and liabilities results in a gap or mismatch and a change in net financial income when interest rates change.

The following tables show our interest-earning assets and interest-bearing liabilities positions by re-pricing period as of June 30, 2017. The tables show the impact that an increase in short-term interest rates (less than twelve months) results in a reduction in our net interest income as a higher amount of liabilities than assets reprices, while a decrease in short-term interest rates has the opposite effect.

	As of June 30, 2017									
	Immediate	1 to 6 Months	6 to 12 Months	1 to 3 Years	3 to 5 Years	5 to 10 Years	10 to 15 Years	Over 15 Years	Without Maturity	Total
(in millions of pesos, except percentages)										
INTEREST-EARNING ASSETS										
Cash and due from banks	896.2	—	—	—	—	—	—	—	2,539.1	3,435.3
Government and corporate securities	433.6	4,193.5	451.3	984.9	122.1	1,125.5	2.5	586.6	182.3	8,082.3
Loans	14,262.7	3,989.9	2,325.1	6,306.8	1,964.7	887.4	443.5	18.7	930.8	31,129.6
Mortgage loans	75.6	337.1	304.6	775.4	382.9	670.5	442.8	18.7	81.8	3,089.4
Personal loans	148.6	748.9	871.7	2,562.9	895.2	202.0	—	—	209.8	5,639.1
Credit card loans	12,272.0	—	—	—	—	—	—	—	576.1	12,848.1
Overdraft facilities	365.1	138.9	0.7	—	—	—	—	—	27.8	532.5
Other loans	1,396.1	2,737.2	1,117.2	2,906.2	686.6	14.9	0.7	—	35.3	8,894.2
Public sector loans	5.3	27.8	30.9	62.3	—	—	—	—	—	126.3
Other receivables from financial transactions	7.0	105.3	41.7	4,078.4	—	50.5	80.0	—	—	4,362.9
Other assets	—	—	—	—	—	5.6	—	—	—	5.6
Total interest-earning assets	15,599.5	8,288.7	2,818.1	11,370.1	2,086.8	2,069.0	526.0	605.3	3,652.2	47,015.7
Cumulative interest-earning assets	15,599.5	23,888.2	26,706.3	38,076.4	40,163.2	42,232.2	42,758.2	43,363.5	47,015.7	
INTEREST-BEARING LIABILITIES										
Subordinated bonds	240.9	2,155.7	816.3	2,039.8	14,071.2	—	—	—	—	19,323.9
Other banks and international entities	398.5	7.6	9.2	5.7	—	—	—	—	—	421.0
Central Bank	—	—	—	—	0.1	—	—	—	—	0.1
Deposits	14,752.1	4,992.2	116.3	21.2	1.1	—	—	—	—	19,882.9
Total interest bearing liabilities	15,391.5	7,155.5	941.8	2,066.7	14,072.4	—	—	—	—	39,627.9
Asset/liability gap	208.0	1,133.2	1,876.3	9,303.4	(11,985.6)	2,069.0	526.0	605.3	3,652.2	7,387.8
Cumulative gap	208.0	1,341.2	3,217.5	12,520.9	535.3	2,604.3	3,130.3	3,735.6	7,387.8	—
Ratio of cumulative gap to cumulative total interest-earning assets	1.3%	5.6%	12.0%	32.9%	1.3%	6.2%	7.3%	8.6%	15.7%	

Off-Balance Sheet Arrangements

We enter into various transactions involving off-balance sheet financial instruments and we use these instruments to meet the risk management, trading and financing needs of clients or for our proprietary trading and asset and liability management purposes.

These instruments are subject to varying degrees of credit and market risk. We monitor credit risk and market risk associated with on- and off-balance sheet financial instruments on an aggregate basis. We use the same credit policies in determining whether to enter or extend call and put option contracts, commitments, conditional obligations and guarantees as we do for granting loans. We believe that our outstanding off-balance sheet items do not represent an unusual credit risk.

For additional information of financial instruments with off-balance sheet risk see Note 9 “Financial instruments with off-balance sheet risk” to our audited consolidated financial statements included elsewhere in this offering memorandum.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is the risk of loss arising from fluctuations in financial markets variables such as interest rates, foreign exchange rates and other rates or prices. This risk is a consequence of our lending, trading and investments businesses and mainly consists of interest rate risk, foreign exchange risk and financial asset quotes.

In order to measure significant market risks (whether they arise in trading or non-trading portfolios), we use the Value at Risk (“VaR”) methodology. This methodology is based on statistical methods that take into account many variables that may cause a change in the value of our portfolios, including interest rates, foreign exchange rates, securities prices, volatility and any correlation among them.

VaR is an estimation of potential losses that could arise from reasonably likely adverse changes in market conditions. It expresses the maximum amount of loss expected (given confidence interval) over a specified time period, or “time horizon,” if that portfolio was held unchanged over that time period.

All VaR models, while forward-looking, are based on past events and are dependent upon the quality of available market data. The quality of our VaR models is therefore continuously monitored, by a back testing process made at least on a quarterly basis, which compares the actual daily income statement with an estimated daily VaR. As calculated by us, VaR is an estimate of the expected maximum loss in the market value of a given portfolio over a horizon of at least ten days at a one-tailed 99% confidence interval. We assume a ten day holding period and adverse market movements of 2.32 standard deviations as the standard for risk measurement and comparison.

VaR of the securities portfolio is calculated daily using an analytical method using covariance matrix, which is completed with an exponentially weighted moving average (“EWMA”) model. Also, a periodically stress-VaR by a scenario analysis method is performed considering the worst price variation in the last ten years.

In order to take advantage of good trading opportunities, we have sometimes increased risk, however during periods of uncertainty have also reduced it. During 2017, the main source of our VaR has been our portfolio of securities.

The following tables show the VaR for trading portfolio by categories for the periods indicated:

	As of December 31,			As of	Change Dec.
	2014	2015	2016	June 30, 2017	2016/June 2017
	(in millions of pesos)				
<u>Market risk for securities position</u>					
Minimum	29.2	31.6	46.8	58.7	11.3
Maximum	290.8	189.8	197.8	113.9	(83.8)
Average.....	92.5	84.1	131.2	82.5	(48.7)
As of the end of the period.....	111.7	112.1	46.8	102.6	55.8
<u>Currency risk for foreign currency position</u>					
Minimum	—	—	19.5	4.2	(15.3)
Maximum	275.1	34.5	224.1	94.2	(129.9)
Average.....	55.3	7.2	57.2	25.5	(31.7)
As of the end of the period.....	1.4	34.5	60.7	48.0	(12.7)

Regarding the currency risk for the foreign currency position, in both 2015 and 2016 the calculation methodology was modified so that the risk measures for 2014 and 2015 are not comparable to each other. Meanwhile, market risk for the securities position remained in line with 2015 levels as of 2016. Interest

Interest Rate Risk

Interest-rate risk is the effect on our net interest income of the fluctuations of market interest rates. Sensitivity to interest rate arises in our normal course of business as the re-pricing characteristics of its interest-earning assets do not necessarily match those of its interest-bearing deposits and other borrowings. The re-pricing structure of assets and liabilities is matched when an equal amount of assets and liabilities re-price for any given period. Any excess of assets or liabilities over these matched items results in a gap or mismatch.

Our interest rate sensitivity analysis measures the risk arising from the different sensitivity of assets and liabilities when interest rate changes occur (“duration” approach). It covers all the assets and liabilities.

The interest rate risk is calculated by two methodologies:

- Earnings at risk (“EaR”), which measures the potential adverse impact in the results of financial intermediation measured in cash terms.
- Economic Value at Risk (“eVaR”), which measures the potential unfavorable change in the present value of the portfolio of assets and liabilities due to interest rate risk increases.

Both of them are measured by a Monte Carlo simulation approach, considering a 12-month horizon and with a confidence level of 99%.

Our methodology captures the real interest rate risk, which is the risk arising from the mismatch produced as a consequence of an imperfect correlation between inflation rate movements and financing interest rate variations, considering also basis risk.

The following table shows the 12-month 99% confidence VaR for our combined interest rate position for the periods indicated:

	As of December 31,			As of June 30, 2017	Change Dec. 2016/June 2017
	2014	2015	2016		
	(in millions of pesos)				
Minimum	379	481	481	856	375
Maximum	521	699	952	940	12
Average.....	430	562	616	885	269
As of the end of the period.....	521	699	894	905	11

THE ARGENTINE BANKING INDUSTRY

Overview

As of April 30, 2017, the Argentine financial system consisted of 78 financial institutions (banks, finance companies and credit unions), 65 of which were domestic or foreign owned private institutions, and 13 of which were Argentine or provincial government-owned financial entities.

As of April 30, 2017, out of the 65 private financial institutions, 33 were privately-owned Argentine financial institutions; 17 were privately-owned foreign financial institutions (i.e., branches or subsidiaries of foreign financial institutions); 14 were privately-owned financial institutions (i.e., corporations (*sociedades anónimas*)) and one was a privately-owned cooperative bank (*banco cooperativo limitado*).

The ten largest privately-owned commercial banks, in terms of total assets, as of April 30, 2017, were: Banco Santander Río S.A.; Banco de Galicia y Buenos Aires S.A.; BBVA Banco Francés S.A.; Banco Macro S.A.; HSBC Bank Argentina S.A.; Banco Credicoop Coop. Ltda.; Industrial and Commercial Bank of China S.A. (Argentina); Banco Patagonia S.A.; Citibank, N.A. and Banco Supervielle S.A. According to information of the Central Bank, as of April 30, 2017, privately-owned commercial banks accounted for approximately 54.1% of deposits and approximately 64.8% of loans in the Argentine financial system. The largest foreign banks operating in Argentina at such date, in terms of assets, were Banco Santander Río S.A.; BBVA Banco Francés S.A.; HSBC Bank Argentina S.A.; Banco Patagonia S.A.; Industrial and Commercial Bank of China (Argentina) S.A.; and Citibank, N.A. Foreign banks established in Argentina are subject to the same regulatory conditions as Argentine banks. Cooperative banks are active principally in consumer banking, with a special emphasis on the retail segment of the market. As of April 30, 2017, financial institutions (other than banks) accounted for approximately 0.3% of deposits and 3.4% of loans in the Argentine financial system.

The largest Argentine government-owned banks, in terms of total assets, were Banco de la Nación Argentina and Banco de la Provincia de Buenos Aires. Under the provisions of the FIL, public banks have comparable rights and obligations as private banks, except that public banks handle public revenues and promote regional development and certain public banks have preferential tax treatment. The bylaws of some Argentine government-owned banks provide that the governments that own them (national and provincial) guarantee their commitments. Under current law, Banco de la Provincia de Buenos Aires will not be subject to taxes, levies or contributions that the Argentine government may impose. According to information published by the Central Bank, as of April 30, 2017, government-owned commercial banks and commercial banks in which the Argentine government had a majority equity interest accounted for 45.5% of deposits and 31.7% of loans in the Argentine financial system.

Due to the delay of the Central Bank to update the information on the financial system, we cannot provide more recent information and cannot assure you that the information mentioned above has not become outdated as of the date of this offering memorandum.

Financial System Size in Argentina and the Region

The Argentine financial system is relatively small in size compared to that of other countries in the region. The following table sets out the percentage of loans and deposits compared to GDP in other countries of the region as of December 31, 2016.

Country	Loans / GDP	Deposits / GDP
Chile	90.55%	86.35%
Brazil	49.55%	40.00%
Peru	41.24%	38.91%
Average for Chile, Brazil and Peru.....	60.45%	55.09%
Argentina.....	14.08%	24.85%

Sources: Local Central Banks.

Market for Banking Services in Argentina

Historically, leading Argentine banks focused on servicing the leading corporations and higher net worth individuals. Over several decades, the Argentine economy suffered from volatility in macroeconomic conditions that resulted in the 2001 financial crisis, which led to the concentration of the financial system.

Over the last decade, the substantial growth of the economy increased the demand for banking services from both corporate and consumer clients. Nevertheless, the Argentine financial system can be considered as a purely transactional system, where demand deposits and short-term time deposits (mainly less than 60 days) finance short-term asset loans (mainly credit cards, personal loans and overdrafts).

The banks that outlived the 2001 crisis and the Central Bank regulations enforced since then provided for a financial system with sound ratios of capitalization, liquidity, loan quality and profitability. The Argentine financial system is Basel II compliant and is in the process of implementing Basel III. As such, the main challenge as well as the main opportunity is to grow relative to the gross domestic product by extending the term of liabilities that allow an extension of assets term.

Competition

As a major commercial bank, offering a full range of banking services to all types of businesses and individual customers, we face a strong competition from other large commercial banks. Commercial banks also face increasing competition from other financial intermediaries that can provide larger companies with access to the domestic capital markets as an alternative to bank loans.

The following table sets forth certain statistics on the Argentine financial system as of April 30, 2017.

	As of April 30, 2017							
	Total Assets		Total Loans		Total Deposits		Shareholders' Equity	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
	(in millions of pesos, except percentages)							
Domestic private-sector banks.....	830,781.0	28.7%	398,525.8	32.7%	574,660.4	27.9%	94,685.0	29.7%
Foreign-owned banks.....	805,138.1	27.8%	391,069.8	32.1%	541,124.0	26.3%	93,928.7	29.4%
Private-sector total...	1,635,919.1	56.5%	789,595.6	64.8%	1,115,784.4	54.1%	188,613.7	59.1%
Government-owned banks.....	1,210,753.1	41.8%	386,662.5	31.7%	938,076.3	45.5%	123,580.0	38.7%
Other financial Institutions.....	47,590.5	1.6%	41,775.8	3.4%	7,088.6	0.3%	7,091.9	2.2%
Argentine financial system ..	2,894,262.7	100.0%	1,218,033.9	100.0%	2,060,949.3	100.0%	319,285.6	100.0%

Source: Central Bank.

Total Net Loans

The following table sets forth the market shares in terms of unconsolidated total loans (net of provisions) for the ten largest banks in the Argentine financial system as of the dates indicated.

Ranking	Bank	As of December 31,				As of April 30,	
		2015		2016		2017	
		Amount	Share	Amount	Share	Amount	Share
(in millions of pesos, except percentages)							
1	Banco de la Nación Argentina.....	156,817.3	17.6%	152,090.4	13.4%	161,094.5	13.2%
2	Banco Santander Río S.A.	83,062.7	9.3%	115,364.4	10.2%	133,143.6	10.9%
3	Banco de Galicia y Buenos Aires S.A.	75,204.7	8.4%	105,343.7	9.3%	115,013.6	9.4%
4	Banco de la Provincia de Buenos Aires S.A.	85,203.8	9.6%	101,805.4	9.0%	111,927.4	9.2%
5	Banco Macro S.A.	56,825.3	6.4%	81,043.7	7.1%	90,078.6	7.4%
6	BBVA Banco Francés S.A.	54,994.6	6.2%	75,980.2	6.7%	81,267.8	6.8%
7	HSBC Bank Argentina S.A.	33,213.4	3.7%	44,376.1	3.9%	47,966.9	3.9%
8	Banco de la Ciudad de Buenos Aires	35,979.6	4.0%	44,264.3	3.9%	46,932.8	3.9%
9	Industrial and Commercial Bank of China (Argentina) S.A.	29,221.0	3.3%	39,831.3	3.5%	43,902.6	3.6%
10	Banco Patagonia.....	31,398.5	3.5%	40,430.7	3.6%	39,803.2	3.3%
	Total for the 10 banks.....	641,920.9	72.1%	800,530.2	70.4%	871,131.0	71.5%
13	Banco Hipotecario S.A.	19,030.7	2.1%	25,223.0	2.2%	25,849.0	2.1%
	Argentine financial system.....	890,863.8	100.0%	1,136,954.6	100.0%	1,218,033.9	100.0%

Source: Central Bank.

Total Net Assets

The following table sets forth the unconsolidated total assets (net of provisions) and market shares for the ten largest banks in the Argentine financial system as of the dates indicated.

Ranking	Bank	As of December 31,				As of April 30,	
		2015		2016		2017	
		Amount	Share	Amount	Share	Amount	Share
(in millions of pesos, except percentages)							
1	Banco de la Nación Argentina	470,493.1	25.5%	729,479.3	27.6%	678,160.9	23.4%
2	Banco de la Provincia de Buenos Aires.....	137,016.0	7.4%	207,098.1	7.8%	267,285.3	9.2%
3	Banco Santander Río S.A.	152,996.1	8.3%	211,211.8	8.0%	252,457.1	8.7%
4	Banco de Galicia y Buenos Aires S.A.	138,712.1	7.5%	209,306.3	7.9%	225,558.0	7.8%
5	BBVA Banco Francés S.A.	109,366.0	5.9%	149,073.4	5.6%	169,396.4	5.9%
6	Banco Macro S.A.	95,478.4	5.2%	144,421.2	5.5%	150,326.8	5.2%
7	HSBC Bank Argentina S.A.	70,995.2	3.9%	83,679.2	3.2%	96,359.5	3.3%
8	Banco Credicoop Cooperativo Limitado.....	62,296.8	3.4%	86,404.6	3.3%	93,001.1	3.2%
9	Banco de la Ciudad de Buenos Aires Industrial and Commercial Bank of	57,459.3	3.1%	78,305.9	3.0%	87,642.9	3.0%
10	China (Argentina) S.A.	59,228.6	3.2%	76,390.5	2.9%	79,061.3	2.7%
	Total for the 10 banks.....	1,354,041.6	73.4%	1,975,370.3	74.7%	2,099,249.3	72.5%
15	Banco Hipotecario S.A.	36,637.5	2.0%	47,143.4	1.8%	52,394.7	1.8%
	Argentine financial system	1,846,096.5	100.0%	2,645,672.9	100.0%	2,894,262.7	100.0%

Source: Central Bank.

Asset Quality

The following table sets forth the ratio of non-performing loans to total loans, net of provisions, for the ten largest banks in the Argentine financial system as of the dates indicated.

Ranking	Bank	As of December 31,		As of April 30,
		2015	2016	2017
		(%)		
1	Banco de la Nación Argentina	1.08	1.52	1.53
2	Banco Santander Río S.A.	0.88	1.19	1.97
3	Banco de Galicia y Buenos Aires S.A.	1.42	1.33	1.69
4	Banco de la Provincia de Buenos Aires S.A.	1.49	2.19	1.95
5	Banco Macro S.A.	1.51	1.11	1.30
6	BBVA Banco Francés S.A.	0.57	0.74	0.82
7	HSBC Bank Argentina S.A.	1.40	1.64	1.59
8	Banco de la Ciudad de Buenos Aires	1.19	1.59	1.48
9	Industrial and Commercial Bank of China (Argentina) S.A.	1.27	1.64	1.67
10	Banco Patagonia	1.18	0.97	1.15
	Average for the 10 banks	1.20	1.39	1.52
13	Banco Hipotecario S.A.	1.59	1.62	1.73
	Argentine financial system	1.45	1.65	1.82

Source: Central Bank.

Deposits

The following table sets forth the deposits levels (unconsolidated) and market shares for the ten largest banks in the Argentine financial system as of the dates indicated.

Ranking	Bank	As of December 31,				As of April 30,	
		2015		2016		2017	
		Amount	Share	Amount	Share	Amount	Share
(in millions of pesos, except percentages)							
1	Banco de la Nación Argentina	372,899.0	27.5%	567,504.1	28.8%	533,414.8	25.9%
	Banco de la Provincia de Buenos Aires						
2	S.A.	121,149.7	8.9%	179,005.9	9.1%	202,920.8	9.9%
3	Banco Santander Río S.A.	110,517.9	8.2%	162,070.0	8.2%	195,921.0	9.5%
4	Banco de Galicia y Buenos Aires S.A.	99,657.0	7.4%	150,639.2	7.7%	154,637.4	7.5%
5	BBVA Banco Francés S.A.	76,792.5	5.7%	114,652.1	5.8%	121,814.4	5.9%
6	Banco Macro S.A.	67,911.3	5.0%	102,496.9	5.2%	106,430.7	5.2%
7	Banco Credicoop Cooperativo Limitado..	53,724.8	4.0%	75,935.7	3.9%	80,248.2	3.9%
	Banco de la Ciudad de Buenos						
8	Aires S.A.	44,928.6	3.3%	64,865.2	3.3%	72,843.9	3.5%
9	HSBC Bank Argentina S.A.	50,521.3	3.7%	63,423.9	3.2%	67,805.0	3.3%
10	Banco Patagonia	41,651.5	3.1%	51,788.4	2.6%	52,024.2	2.5%
	Total for the 10 banks	1,039,753.6	76.8%	1,532,381.4	77.8%	1,588,060.4	77.0%
17	Banco Hipotecario S.A.	20,486.8	1.5%	19,043.9	1.0%	20,317.1	1.0%
	Argentine financial system	1,354,390.9	100.0%	1,969,028.6	100.0%	2,060,949.3	100.0%

Source: Central Bank.

Shareholders' Equity

The following table sets forth the shareholders' equity and market shares for the ten largest banks in the Argentine financial system as of the dates indicated.

Ranking	Bank	As of December 31,				As of April 30,	
		2015		2016		2017	
		Amount	Share	Amount	Share	Amount	Share
(in millions of pesos, except percentages)							
1	Banco de la Nación Argentina	58,601.6	25.8%	79,908.1	26.9%	85,972.0	26.9%
2	Banco Macro S.A.	15,876.1	7.0%	22,105.9	7.4%	23,676.1	7.4%
3	Banco Santander Río S.A.	16,164.8	7.1%	21,351.4	7.2%	23,190.7	7.3%
4	Banco de Galicia y Buenos Aires S.A.	13,812.2	6.1%	18,905.9	6.4%	20,865.5	6.5%
5	BBVA Banco Francés S.A.	13,716.4	6.0%	16,460.0	5.5%	17,497.3	5.5%
6	Banco de la Provincia de Buenos Aires S.A.	9,104.0	4.0%	12,148.8	4.1%	13,777.8	4.3%
7	Citibank N.A.	9,312.4	4.1%	11,022.2	3.7%	12,949.8	4.1%
8	Industrial and Commercial Bank of China (Argentina) S.A.	6,452.5	2.8%	9,045.6	3.0%	9,791.0	3.1%
9	HSBC Bank Argentina S.A.	7,947.9	3.5%	8,616.2	2.9%	9,091.1	2.8%
10	Banco Patagonia S.A.	7,681.5	3.4%	9,235.6	3.1%	8,600.8	2.7%
	Total for the 10 banks	158,669.4	69.9%	208,799.7	70.3%	225,412.1	70.6%
13	Banco Hipotecario S.A.	5,440.9	2.4%	6,056.2	2.0%	6,447.2	2.0%
	Argentine financial system	226,878.3	100.0%	297,211.8	100.0%	319,285.6	100.0%

Source: Central Bank.

Return on Assets

The following table sets forth the return on assets (unconsolidated) for the ten largest banks in the Argentine financial system for the dates indicated.

Ranking	Bank	As of December 31,		As of April 30,
		2015	2016	2017
		(%)		
1	Banco de la Nación Argentina.....	5.17	4.40	3.37
2	Banco Santander Río S.A.	3.75	3.09	3.09
3	Banco de Galicia y Buenos Aires S.A.	3.70	3.18	3.09
4	Banco de la Provincia de Buenos Aires S.A.	1.03	1.80	1.86
5	Banco Macro S.A.	6.27	5.61	5.37
6	BBVA Banco Francés S.A.	4.52	3.00	3.11
7	HSBC Bank Argentina S.A.	2.40	2.67	1.89
8	Banco de la Ciudad de Buenos Aires	2.12	2.37	2.21
9	Industrial and Commercial Bank of China (Argentina) S.A.	4.72	4.26	3.66
10	Banco Patagonia S.A.	5.25	5.51	5.15
	Average for the 10 banks	3.89	3.59	3.28
13	Banco Hipotecario S.A.	3.57	1.61	1.86
	Argentine financial system	4.23	3.81	3.42

Source: Central Bank.

Return on Equity

The following table sets forth the return on equity (unconsolidated) for the ten largest banks in the Argentine financial system for the dates indicated.

Ranking	Bank	As of December 31,		As of April 30,
		2015	2016	2017
			(%)	
1	Banco de la Nación Argentina	43.53	31.96	26.32
2	Banco Santander Río S.A.	31.65	29.17	30.45
3	Banco de Galicia y Buenos Aires S.A.	34.71	32.77	32.48
4	Banco de la Provincia de Buenos Aires S.A.	14.86	30.85	32.56
5	Banco Macro S.A.	39.69	36.19	35.09
6	BBVA Banco Francés S.A.	33.31	24.80	27.44
7	HSBC Bank Argentina S.A.	18.37	21.73	16.13
8	Banco de la Ciudad de Buenos Aires	18.08	24.50	23.51
9	Industrial and Commercial Bank of China (Argentina) S.A.	43.11	34.52	29.35
10	Banco Patagonia S.A.	37.23	40.17	37.86
	Average for the 10 banks	31.45	30.67	29.12
13	Banco Hipotecario S.A.	23.40	10.78	13.04
	Argentine financial system	33.70	30.97	29.00

Source: Central Bank.

Branch Networks

The following table sets forth the number of full service branch offices for the ten largest banks in the Argentine financial system as of the dates indicated.

Ranking	Bank	As of December 31,				As of April 30,	
		2015		2016		2017	
		Number	Share	Number	Share	Number	Share
1	Banco de la Nación Argentina	634	14.21%	634	13.93%	630	14.16%
2	Banco Santander Río S.A.	396	8.87%	408	8.97%	482	10.84%
3	Banco de Galicia y Buenos Aires S.A.	260	5.83%	278	6.11%	278	6.25%
	Banco de la Provincia de Buenos Aires						
4	S.A.	342	7.66%	342	7.52%	334	7.51%
5	Banco Macro S.A.	408	9.14%	413	9.08%	410	9.22%
6	BBVA Banco Francés S.A.	251	5.62%	251	5.52%	250	5.62%
7	HSBC Bank Argentina S.A.	139	3.11%	139	3.05%	137	3.08%
8	Banco de la Ciudad de Buenos Aires	61	1.37%	69	1.52%	70	1.57%
	Industrial and Commercial Bank of China						
9	(Argentina) S.A.	104	2.33%	105	2.31%	111	2.50%
10	Banco Patagonia S.A.	174	3.90%	177	3.89%	181	4.07%
	Total for the 10 banks	2,769	62.04%	2,816	61.89%	2,883	64.82%
13	Banco Hipotecario S.A.	62	1.39%	65	1.43%	63	1.42%
	Argentine financial system	4,463	100.00%	4,550	100.00%	4,448	100.00%

Source: Central Bank.

- (1) The information presented by the Central Bank does not include all of our “points of contact,” some of which are not considered branches by the Central Bank.

BUSINESS

Overview

Established in 1886 by the Argentine government and privatized in 1999, we are a full-service commercial bank, offering a wide range of banking products and services such as consumer and corporate loans, savings accounts, credit and debit cards, and related financial services to individuals, small- and medium-sized companies and large corporations. All of our operations are located in Argentina where we operate through a nationwide network of 65 branches in all 23 provinces and the City of Buenos Aires, and 15 additional points of sale across Argentina. We seek to distinguish ourselves from other Argentine banks through our focus on household and consumer loans, which we believe offers attractive opportunities for continued growth.

We have historically been Argentina's leading mortgage lender and provider of mortgage related insurance and mortgage loan services, according to data from the Central Bank. As of June 30, 2017, we were the 14th largest bank in Argentina in terms of total shareholders' equity with Ps.6,681.2 million and 15th in terms of unconsolidated assets of Ps.49,272.0 million.

Our net income for the years ended December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2017 was Ps.550.0 million, Ps.1,085.8 million, Ps.615.3 million and Ps.625.0 million, respectively, which represented a return on average equity of 13.3%, 22.1%, 10.7% and 19.6%, respectively, and a return on average assets of 2.1%, 3.1%, 1.3% and 2.3%, respectively. As of June 30, 2017, we had total shareholders' equity of Ps.6,681.2 million and total assets of Ps.55,261.9 million.

In line with our strategy to continue diversifying our loan portfolio, our portfolio of non-mortgage loans increased from Ps.14,845.9 million as of December 31, 2014 to Ps.17,944.7 million as of December 31, 2015, to Ps.24,305.4 million as of December 31, 2016 and to Ps.28,147.3 million as of June 30, 2017, representing an increase from 88.1% as of June 30, 2016 to 89.9% as of June 30, 2017 in total non-mortgage loans granted by us to the non-financial private sector. Non-performing loans as a percentage of our total loan portfolio was 2.3% as of December 31, 2014, 2.0% as of December 31, 2015, 2.7% as of December 31, 2016 and 2.9% as of June 30, 2017.

In recent years, we have diversified our funding base and have become one of the most frequent issuers of corporate debt in Argentina based on the percentage of our total funding, by developing our presence in the domestic and international capital markets. Our financial indebtedness as a percentage of our total funding was 19.9% as of December 31, 2014, 27.2% as of December 31, 2015, 47.2% as of December 31, 2016 and 49.4% as of June 30, 2017.

Our subsidiaries include BACS, which specializes in investment banking, asset securitization and asset management; BHN Vida, a life insurance company; BHN Seguros Generales, a homeowners' insurance company; and Tarshop, which focuses on selling consumer finance products and making cash advances to unbanked clients.

Our principal shareholders are the Argentine government and IRSA Inversiones y Representaciones Sociedad Anónima, a leading real estate company in Argentina with shares listed in Argentina on the BYMA and on the New York Stock Exchange. See "Principal Shareholders".

Our Strategy

In 2004, we started refocusing our business, by developing and introducing new products, modernizing our systems and transforming our target markets. This has allowed us to evolve from a financial institution focused primarily on mortgage lending to a full-service commercial bank. We intend to continue to strengthen our position as a leading commercial bank in Argentina through the following strategic initiatives:

- *Continued Focus on Consumer Finance.* We intend to continue to enhance the scope and quality of the financial services provided to our individual clients and aim to acquire new clients. We intend to continue to use direct marketing to acquire new clients and improving our database processing to identify potential customers. We will also continue to develop e-channels in order to enhance our net distribution capabilities, such as home and mobile banking.
- *Further Develop Our Corporate Banking Business.* We intend to complement our consumer finance activities with a substantial commercial loan portfolio. We seek to identify growth-oriented companies and to play an active role in their development by providing loans, cash management and other commercial banking services and assisting them to gain access to capital markets. We intend to

increase our exposure to industry sectors that we believe have promising prospects for continued growth.

- *Universal Banking with Continuing Focus on Housing Solutions.* We intend to maintain our leading position in the mortgage loan market and to offer a wide range of products to meet our customers' mortgage financing needs. In addition to traditional mortgage lending and securitization activities, we intend to take advantage of new opportunities in the mortgage finance sector such as acting as trustee for the government-sponsored Argentine Bicentennial Credit Program for Family Housing (*Programa Crédito Argentino del Bicentenario para la Vivienda Única Familiar – PROCREAR*), which contemplates the promotion of mortgage loans to individuals and the construction of new urban residential developments, and to become an important player in the new inflation-adjusted mortgage market.
- *Diversifying Funding Sources.* We intend to continue to improve our funding mix by diversifying our short-term funding and to enhance long-term funding in order to align to industry standards and take advantage of capital markets opportunities. In this regard, we will continue to focus on attracting demand deposits and issuing debt in capital markets.
- *Rigorous Risk Management.* Rigorous credit and risk management policies are essential for the successful implementation of our business strategy. We seek to continuously improve our risk management policies and processes and overall asset quality by adopting and adhering to international best practices. We also intend to focus on monitoring the respective risks and profitability of our business units (applying *raroc* models), selectively originating new loans, segmenting our retail banking portfolio to identify client risks and price loans accordingly and maintaining a well-diversified portfolio of corporate loans. We are also Basel II compliant, and are in the process of implementing Basel III, pursuant to the implementation schedule set forth by the Central Bank.
- *Increasing Profitability by Enhancing Customer Loyalty.* We seek to expand and strengthen our relationship with our existing customers, which we believe represent a source of stable, recurring revenues and opportunities for further growth. We seek to establish ourselves as our customers' preferred provider of diversified financial services by cross-selling a wide range of services and multi-product offerings and by focusing on opportunities to increase our fee income.
- *Promotional Activities to Reinforce Brand.* We intend to emphasize promotional activities and loyalty campaigns to continue to foster our image as a contemporary, simple and inclusive bank. We will do so by creative use of social media and marketing strategies designed to position us as a modern bank and to appeal to a younger client base.
- *Seize Market Opportunities.* We have continued our internal reorganization, optimizing employee headcount in certain non-core activities to improve operating efficiency and profitability. Our internal reorganization is in its final stage and is expected to be completed in 2018. Also, we continuously explore the possibility of selectively acquiring other banks or financial institutions to improve our distribution channels, diversify our sources of funding and take advantage of operational synergies, but we cannot assure you that we will be able to do so.

Lines of Business

Loan Portfolio

The table below sets forth the composition of our loan portfolio as of the dates indicated.

	As of December 31,			As of June 30,		
	2014	2015	2016	2016	2017	2017
	(in thousands of pesos)			(in thousands of US ⁽¹⁾)	(in thousands of pesos)	(in thousands of US ⁽¹⁾)
Loans:						
To the non-financial public sector.....	112,131	46,999	153,032	9,655	129,474	7,800
To the financial sector.....	339,190	198,130	636,950	40,186	518,403	31,232
To the non-financial private sector and residents abroad:						
Overdrafts.....	1,173,527	493,226	290,153	18,306	546,129	32,902
Promissory notes.....	369,360	310,407	687,965	43,404	933,292	56,227
Mortgage loans.....	2,349,468	2,631,874	2,744,734	173,167	3,168,830	190,911
Pledge loans.....	103,576	427,857	640,365	40,401	236,800	14,266
Personal loans.....	2,354,793	2,970,468	4,611,052	290,914	5,784,096	348,471
Credit card loans.....	7,155,260	9,903,383	12,663,403	798,943	13,178,322	793,947
Unapplied collections.....	(34,565)	(169,487)	(1,166)	(74)	(43,274)	(2,607)
Other loans.....	3,536,442	3,778,237	5,166,467	325,956	7,282,108	438,721
Accrued interest and trading differences receivable.....	213,947	260,161	293,006	18,486	278,622	16,786
Documented interest.....	(26,464)	(29,571)	(45,878)	(2,894)	(48,779)	(2,939)
Total loans to the non-financial private sector and residents abroad.....	17,195,344	20,576,555	27,050,101	1,706,609	31,316,146	1,886,685
Allowances.....	(407,140)	(451,751)	(676,141)	(42,658)	(796,546)	(47,989)
Loans, net of allowances.....	17,239,525	20,369,933	27,163,942	1,713,792	31,167,477	1,877,729
Loans pending securitization ⁽²⁾	10,436	9,175	7,345	463	6,248	376
Receivables for financial leases ⁽²⁾	106,740	129,179	155,775	9,827	163,220	9,833
Accrued interest receivable ⁽²⁾	4,561	5,892	6,303	398	5,824	351
Provisions ⁽²⁾	(3,415)	(3,209)	(2,922)	(184)	(3,576)	(215)
Total loans.....	17,357,847	20,510,970	27,330,443	1,724,296	31,339,193	1,888,074

(1) The exchange rate used for purposes of translation of balances as of December 31, 2016 and June 30, 2017 was Ps.15.8502 = US\$1.00 and Ps.16.5985 = US\$1.00, respectively.

(2) For clarity, loans pending securitization and receivables for financial leases (including related interest accrued and provisions) are presented separately. As a result, "Loans" and "Other Receivables for Financial Transactions" differ from the amounts presented in our consolidated financial statements.

Consumer Loans (Credit Card Loans and Personal Loans)

In recent years, we have dedicated significant resources to the implementation of a new business strategy oriented towards universal banking. We believe that we have made progress in our goal to reposition our retail business by launching new products, customizing and updating our systems and processes and strengthening our market positioning. We aspire to segment our consumer loans not only by socioeconomic status, but also based on consumption habits or affinity groups, in order to offer a variety of products tailored to our consumers' needs.

We market our personal loans through our branches and alternative sales channels. We offer personal loans at a fixed rate, for up to 80 months and for a maximum amount generally not exceeding the lower of (i) the applicant's eight months' net income and (ii) Ps.500,000. Our personal loans balances as of December 31, 2014, 2015, 2016 and as of June 30, 2017 were Ps.2,354.8 million, Ps.2,970.5 million, Ps.4,611.1 million and Ps.5,784.1 million, respectively.

For our credit card business, we continue issuing Visa branded credit cards and continue to implement a number of promotional measures and certain lines of business and products, alliances with different sought-after retailers as well as co-branding arrangements (Hipermercados Libertad since 2007 and Aerolíneas Argentinas since 2012). We undertook these actions to increase client loyalty and retention, which we believe leads to increased revenues from fees.

As a result of these actions and our acquisition of an 80% ownership interest in Tarshop, our credit card loans grew from Ps.7,155.3 million as of December 31, 2014, to Ps.9,903.4 million as of December 31, 2015, to Ps.12,663.4 million as of December 31, 2016 and to Ps.13,178.3 million as of June 30, 2017.

As of June 30, 2017, our total consumer loans represented 65.9% of our total loans and our consumer loans generated 67.3% of our consolidated financial income for such period. As of June 30, 2017, 4.4% of our consumer

loans were non-performing, accounting for 99.1% of our total non-performing loans at such date. In addition, as of June 30, 2017, we held Ps.1,826.1 million in consumer loan backed securities issued by Tarshop registered under other receivables from financial transactions. As of June 30, 2017, we had issued 784,485 active credit cards, and Tarshop had issued 417,500 active credit cards.

Wholesale Banking

Our efforts for 2017 have been focused on consolidating our new internal organization that centralized corporations, small- and medium-sized companies and the public sector, in order to offer our corporate products and create synergy between the financial, wholesale and retails areas. One of our objectives continues to be maintaining our presence as a mayor player within the corporate banking segment. Additionally, we plan to further develop our strategy of active involvement in syndicated loans structuring and as an active arranger for capital market transactions in the domestic market.

In order to increase commissions and account balances, throughout 2017 we have launched new cash management products designed to allow our customers to have a technological platform to customize their transactional needs. In this sense, we will continue to develop products to help companies to optimize their cash flow management thus contributing to our objective of increasing our deposit base and increasing the number of the transaction made by our customers.

To this end, we created a team that specialized in different industries and sectors, with a view to improving penetration in each industry and better understanding the needs and risks inherent to each particular industry. We will continue to target the most appealing sectors that have favorable growth prospects and require major investments, focusing mainly on sectors such as exports, energy, agribusiness, real estate and consumption, in order to generate a balanced portfolio in terms of rates and maturities and reduce our exposure to fluctuations in market conditions.

Regarding economics sectors, we plan to maintain our current strategy of diversification, focusing in the sectors that we consider strategic.

As a result of the implementation of our strategy to expands our corporate business, the balances of loans in the corporate segment increased from Ps.4,674 million as of December 31, 2015, to Ps.6,114 million at December 31, 2016 to Ps.7,522 million as of June 30, 2017.

Mortgage Loans

Notwithstanding our expansion and growth in different financial products, we strive to maintain our leading position in the mortgage loan market and look to offer a wide array of products to meet our customers' mortgage financing needs.

We offer peso-denominated mortgage loans with rates adjustable by UVAs. As a general condition, we offer mortgage loans in an amount up to 75% of the property value when the property is to be used as a primary home. When properties are acquired for construction purposes, we generally finance up to 75% of the value of the property. The maximum amount for such loans is Ps.5,000,000. The mortgage payment installment may never exceed 30% of the household income, with household understood as comprising both marriage and cohabitation arrangements. We rely on a pre-qualification process to inform applicants as early as possible following initial application of the maximum amount they may borrow if they meet all requirements in terms of personal conditions, credit history and the property to be used as collateral.

Our mortgage loan balances for 2014, 2015 and 2016 as of June 30, 2017 were Ps.2,349.5 million, Ps.2,631.9 million, Ps.2,744.7 million and Ps.3,168.8 million, respectively. As of June 30, 2017, our mortgage loans represented 10.2% of our total loans, and our mortgage loans generated 4.72% of our consolidated financial income. As of June 30, 2017, 0.83% of our mortgage loans were non-performing, accounting for 1.8% of our total non-performing loans at such date.

Trustee Services for PROCREAR Trust

On June 12, 2012, the Argentine government issued Decree No. 902/2012 providing for the creation of PROCREAR program. On July 18, 2012, the PROCREAR Administrative and Financial Trust (the "PROCREAR Trust") was established through the execution of a trust agreement between the Argentine government, as Trustor, and us, as trustee.

The Macri administration reviewed policies related to the granting of mortgage loans to generate new credit alternatives. As a consequence of such review, the Macri administration implemented modifications to the PROCREAR Trust. On March 7, 2017, through Decree N°146/2017, the Macri administration relaunched the program PROCREAR and as a consequence the program passed from the control of ANSES to that of the Ministry of Interior, Infrastructure and Housing. We cannot assure you that the program will be developed in the same way in the future or that the modifications introduced will not have negative consequences. See “Risk Factors—Risks related to our Business—Modifications to the policies of the PROCREAR Trust could occur”.

The PROCREAR program contemplates the government-sponsored granting of up to 200,000 new loans in an aggregate amount of up to Ps.95,300 million. The PROCREAR program also intends to promote the development of urban construction projects through awards for the development of new urban residential complexes. The loans contemplated by the PROCREAR program are to be funded by, among others, contributions made by the National General Treasury of Argentina. As of June 30, 2017, recorded loans on their assets for up to Ps.52,183.6 million.

The PROCREAR Trust has two types of credit lines:

- “*Credit with land*”: individual construction loans, where the borrower owns the land and takes a loan to finance construction of the borrower’s own house.
- “*Credit without land*”: the PROCREAR Trust develops an urban project on land deeded by the Argentine government, and once the project is completed, individuals are able to buy units with mortgage loans to be granted by the PROCREAR Trust.

We act as the sole trustee for, and the sole administrator of the PROCREAR Trust. All loans made pursuant to the PROCREAR Trust are funded by the National General Treasury of Argentina and by publicly offered senior notes issued by the Trust. As a result, the loans granted through the PROCREAR Trust are not reflected as assets on our balance sheet and do not create any credit or interest rate risk for us. In our capacity as trustee and originator of the loans granted by the PROCREAR Trust and receive a fee of Ps.400,000 per month for such services. In our capacity as loan administrator, we receive a fee of 0.5% of loan installments collected from low-income clients and a fee of 2% of loan installments collected from clients in other segments.

Additionally, by originating the loan we create cross-selling opportunities by offering to capture new clients other financial products, such as insurance services through our insurance subsidiary, BHN Vida.

Through our insurance subsidiaries BHN Vida and BHN Seguros Generales we provide insurance related products to the loans originated by the Trust. For the six months ended June 30, 2017 and 2016, our insurance activities relating to the PROCREAR Trust generated gross fees of Ps.181.3 million and Ps.152.9 million, respectively, representing 42.3% and 33.8%, respectively, of our consolidated insurance premiums earned in such periods. These gross figures do not include administrative expenses, expenses for services and taxes.

During the six months ended June 30, 2017 and 2016 our activities as trustee of the PROCREAR Trust generated gross fees of Ps.134.0 million and Ps.107.9 million, respectively, representing 7.5% and 8.8% of our consolidated income from services other than insurance services. These gross figures do not include administrative expenses, expenses for services and taxes.

In connection with the review of policies discussed above, the Argentine government approved a new program called “*Procrear Solución Casa Propia*”, which is designed to allow thousands of families to access their first home. Eligible families will be selected through an objective scoring system intended to prioritize the most needy families, according to their socio-economic status (using parameters such as number of minor dependent children, disability, flooding, and others). This program combines a mortgage loan from the financial system adjusted by the CER, a percentage of household savings and a subsidy from the federal government, through procreate. It is aimed at middle income and low income families (2 to 4 SMVM net family equivalents of Ps.13,620 – Ps.27,240 for June 2016 and Ps.15,120 – Ps.30,240 as of December 2016) selected through a scoring system objective and transparent approach that prioritizes the families that are most in need according to their socio-economic situation (including parameters such as number of children under charge, disability, flood, and others).

Characteristics:

- Explicit subsidy: directly granted to the beneficiaries.
- Progressive system: the subsidy in relative terms is greater the lower the value of the home;

- Sustainable: the government has a significant stake at the beginning, then the loan becomes a private contract between the financial system and the beneficiaries;
- Annual financing is currently intended to provide up to 25,000 housing solutions;
- Additional contributions from the Argentine National Treasury: up to Ps.5,000 million (representing an average subsidy value of Ps.200,000 per beneficiary);
- Household savings: Ps.2,500 million (representing average savings of Ps.100,000 per household);
- Financial system: Ps.17,500 million (representing an average mortgage loan of Ps.700,000 per beneficiary).

Since the PROCREAR Trust is expected to receive additional contributions to fund the new program, the performance of the PROCREAR Trust should not be affected. However, we cannot guarantee that the program will be developed in the same way in the future or whether further amendments are made.

BH Valores

On May 13, 2015, our board of directors and the board of directors of BH Valores approved the transfer of the majority of BH Valores' customer accounts to us as part of the strategy to transfer all such accounts to us and cause our investment department to develop these operations under the scope of our customary activities. As of the date hereof this offering memorandum, these accounts have been transferred to us.

Distribution Channels

As of June 30, 2017, our network consists of 65 branches and 15 sales offices throughout Argentina. Our product distribution is based on four principal pillars:

- branches,
- points of sales,
- telemarketing, and
- our own sales force.

Our direct marketing strategy is designed to reach our existing clients and potential new clients through cross-selling opportunities. This strategy is supported by the use of technological tools specifically designed for processes to incorporate more intelligence, segmenting databases for improved communication efficiency and product acceptance. Responsibility for selling our products to new clients lies mainly with the sales force teams at the head office and the branches.

We seek to steer our distribution and sales channels to succeed in reaching a greater number of prospective customers by offering a larger selection of products. In addition to the traditional sales platform at the branches, we have forged business alliances seeking to supplement our functions with strategic partners who add value to the distribution chain with the overarching objective being a decrease in the costs incurred in client acquisition and new product placement.

Information Technology

To carry out our banking operations, we use a set of technological solutions, which can be classified into three main groups: core banking, e-channels and front office applications. In core banking, we use Cobis, a tool of global reach that has been adopted by multiple banks worldwide and is recognized by reputable technological consulting firms like Gartner and Forester.

During 2017, we have been implementing the first modernization phase of our planned upgrade of our Cobis system (in line with our strategic efforts to continually update our technology) as well as adding new functionalities to support our business growth. All of our back-office transactions run in SAP (finance / procurement and human resources).

With respect to our e-channel infrastructure, we run market applications and Oracle BPM (business process management) for all origination processes. In November 2014, we entered into an unlimited license agreement with Oracle to implement a Self-Inquiry module and other technologies and we are implementing the CRM solution Microsoft Dynamics to get a 360-degree relationship with our customers. We also work with a service-oriented architecture (SOA), which allows us to run third party and our application developments. Over 500 SOA services have been developed to date and we are implementing API technology to integrate with new digital ecosystems in

an agile way. In addition, we continue migrating our current Sonic platform to a more evolved platform called Oracle Service Bus (OSB).

With respect to information management, we use SAS as a data warehouse, with Click View, Cognos and Power Center technologies to simplify the user experience. We also have defined our analytics strategy, to be implemented in the coming years, which should allow us to manage and analyze structured and unstructured information, and make predictive analysis of relevant information.

With respect to infrastructure, we use Oracle Super Cluster Technology (T5-8 processors – Exadata) to run our core banking system (Cobis). The operational capacity of our datacenters is in the order of 5MM of SAPs (Sap application performance units), distributed as follows:

- 9% in T5-8 (Oracle)
- 33% on physical x64 platform computers (HP Enterprise)
- 58% on a VMWare x64 virtual farm (HP Enterprise)

We have two sites on “active-active” mode which are linked through a double dark fiber, with a total bandwidth of 16Gbps, which allows a recovery strategy to fail without downtime. It works with three types of operating platforms, Solaris, Windows and Linux in supported versions.

Funding

Deposits

In order to diversify our sources of funding, we have been focusing on attracting deposits from both the public and private sectors in recent years. Our main source of deposits currently consists of peso-denominated term deposits. We also offer term deposits in U.S. dollars and deposits in savings and checking accounts. The following table sets forth our sources of funding as of the dates indicated:

	As of December 31,			As of June 30,			
	2014	2015	2016	2016	2016	2017	2017
	(in thousands of pesos)			(in thousands of US\$ ⁽¹⁾)	(in thousands of pesos)		(in thousands of US\$ ⁽¹⁾)
Deposits							
Non-financial public sector	9,100,822	6,819,957	2,536,836	160,051	3,534,868	2,853,776	171,930
Financial sector.....	7,416	8,361	6,394	403	6,385	6,676	402
Non-financial private sector and foreign resident	9,225,875	13,563,895	16,441,762	1,037,322	14,252,280	17,022,523	1,025,546
Checking accounts	760,533	648,295	881,421	55,609	653,078	830,078	50,009
Savings accounts.....	2,479,643	2,502,529	3,329,855	210,083	2,848,403	4,099,010	246,951
Term deposits	4,983,820	8,489,757	10,613,088	669,587	9,385,282	10,542,773	635,164
Investment accounts.....	713,438	1,550,115	1,013,895	63,967	944,845	1,108,741	66,798
Other.....	156,068	171,906	318,055	20,066	167,199	238,943	14,395
Interest and foreign currency gains/(losses) payable	132,373	201,293	285,448	18,009	253,473	202,978	12,229
Total deposits	18,334,113	20,392,213	18,984,992	1,197,776	17,793,533	19,882,975	1,197,878

The following table sets forth a breakdown of our deposit composition as of the dates indicated:

	As of December 31,			As of June 30,			
	2014	2015	2016	2016	2016	2017	2017
	(in thousands of pesos)			(in thousands of US\$ ⁽¹⁾)	(in thousands of pesos)		(in thousands of US\$ ⁽¹⁾)
Deposits							
Time deposits.....	9,671,476	15,671,777	13,819,415	871,876	13,190,600	13,717,667	826,440
Saving accounts.....	2,816,343	3,187,068	3,611,713	227,865	3,130,453	4,415,774	266,035
Checking accounts	4,962,612	1,351,893	1,362,218	85,943	1,299,090	1,617,474	97,447
Other.....	883,682	181,475	191,646	12,091	173,390	132,060	7,956
Total deposits	18,334,113	20,392,213	18,984,992	1,197,775	17,793,533	19,882,975	1,197,878

(1) The exchange rate used for purposes of translation of balances as of December 31, 2016 and as of June 30, 2017 was Ps.15.8502 = US\$1.00 and Ps.16.5985 = US\$1.00, respectively.

(2) This table includes a reclassification of Non-financial public sector deposits into each of the different sources of funding, consistent with how we present our funding.

Notes

Although deposits represent our most significant funding source (41.18 of our total liabilities at June 30, 2017), we have also issued bonds in the domestic and international capital markets. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Our Notes”.

Subsidiaries

BACS

We are the principal shareholder of BACS, a bank that provides primarily investment banking, assets securitization and asset management services. The following table sets forth the shareholders of BACS as of June 30, 2017:

Shareholder	Shares	Votes	%
Banco Hipotecario S.A.	54,687,500	54,687,500	62.3
IRSA Inversiones y Representaciones Sociedad Anónima	29,297,626	29,297,626	33.3
Tyrus S.A.....	3,828,125	3,828,125	4.4
Total	87,813,251	87,813,251	100.0

BACS conducts activities separately from us because it focuses mostly on corporate loans, in the investment banking segment, while the majority of our clients are in the retail segment. As of June 30, 2017, BACS’s total assets and net income represented 4.2% and 5.2% of our consolidated assets and net income, respectively.

In addition, BACS controls Toronto Trust, an investment fund manager with more than Ps.6,162.5 million in assets under management and a market share of the mutual funds industry of 1.28% as of June 30, 2017.

Insurance Subsidiaries: BHN Vida and BHN Seguros Generales

We offer insurance coverage for the financial products we offer (loans, checking accounts and credit cards) through our wholly-owned subsidiaries BHN Vida (life insurance products) and BHN Seguros Generales (homeowners’ insurance products). As a result, the contribution of our insurance business to our results of operations is linked to the origination of those financial products. In all these cases, we assume the insured risk, collect the premiums and paying on the claims. We offer these types of coverage only to our current clients or to clients whose homes have been financed by us.

We currently operate both as a policy-owner and as an insurance broker. The following is a description of the insurance provided in these two capacities:

Insurance Related to Financial Products

This coverage is designed to minimize the risk of uncollectability in the event of the debtor’s death and to preserve the value of collateral. In this respect, the two main product offerings are:

Life insurance: applicable to personal loans, mortgage loans, credit cards and accounts for the repayment of debt balances in the event of the death of the insured debtor. Type of contract: group life insurance policy whereby we are both policy-owner and beneficiary for the amount established and covered by each financial product.

Fire insurance: applicable to mortgage loans and accounts (or any other product) secured by mortgages. Type of contract: insurance policy against fire and other damages to property, in which we are beneficiary.

Coverage Offered to Clients in which we act as Part of the Distribution Channel

These products supplement a client’s loan insurance coverage or meet its insurance needs and are voluntarily acquired by clients. We earn fees in proportion to the portfolio of insurance products generated by us as a distribution channel. The products are designed together with insurance companies in accordance with the guidelines established by us, based on the price-benefit ratios that best fit each client segment. In this business segment, we act as an insurance broker pursuant to agreements made with various insurance companies. The risks are assumed and managed by the insurance companies based on rates, coverage, requirements, standards and procedures regulated by the Superintendency of Insurance. Main insurance products include: life, personal

accidents, homeowners, health, motor vehicle, protected purchase for products and/or services acquired with credit cards and ATM robbery.

On December 2, 2015, we were notified of an objection raised by the Central Bank’s Financial Superintendency with respect to our direct and indirect ownership stakes in BHN Vida and BHN Seguros Generales, alleging that the application of rules of *graduación de crédito* impose a 12.5% limit on our ownership of capital stock and voting rights of other companies. We responded that such objection should be reviewed, because we, as the successor company of Banco Hipotecario Nacional, are authorized to engage in the insurance business, pursuant to the Privatization Law and regulations thereunder, specifically Decree No. 1394/98. As of June 30, 2017, we have exchanged correspondence with the Central Bank on the matter, and a final decision is still pending review by the highest authority of the entity. See “Risk Factors—Risks Relating to our Business—The Central Bank may have objections to our ownership stake in our insurance business”.

During the six months ended June 30, 2017, the consolidated net income from services from BHN Inversión S.A. represented 35.6% of our consolidated income from services, net for such period.

Tarshop

To further our strategy on developing our consumer finance activities, we acquired 80% of the capital stock of Tarshop on September 29, 2009. The remaining 20% is owned by our affiliate, IRSA Propiedades Comerciales S.A. (“IRSA PC”). Tarshop’s business is based on selling consumer finance products, mainly its own *Tarjeta Shopping* credit card, and making cash advances to unbanked entry-level clients, which we do not service directly. At June 30, 2017, Tarshop’s loan portfolio balance was Ps.1,795.4 million and managed an additional portfolio of Ps.3,957.1 million.

In September 2014, Tarshop entered into an agreement with Visa Argentina to expand the network of stores that accept the Tarshop *Tarjeta Shopping* credit card. As a result, Tarshop has achieved national coverage by increasing its network from 40,000 to 350,000 stores. On October 22, 2014, September 17, 2015, November 4, 2015 and June 24, 2016 our board of directors approved capital contributions to Tarshop in the amounts of Ps.110.0 million, Ps.52.5 million, Ps.52.5 million and Ps.250.0 million, respectively, to be made by us and IRSA PC in proportion to our respective shareholdings, in order for Tarshop to operate effectively and to comply with its business plan for 2016.

As of June 30, 2017, loans due to us by Tarshop represented 5.5% of our total consolidated loan portfolio. As of June 30, 2017, 23.3% of Tarshop’s loans were non-performing, accounting for 42.9% of our total portfolio of non-performing loans at such date. As of June 30, 2017, Tarshop’s financial income accounted for 10.1% of our consolidated financial income and Tarshop’s net income from services represented 21.5% of our consolidated net income from services.

Securities Position

We maintain a position in government and corporate securities, mainly to implement our liquidity policy and to optimize our capital administration. These positions are exposed to market risk. The instruments are mainly securities issued by the Central Bank, bills and securities issued by the Argentine government and provincial governments in Argentina and corporate securities listed on the domestic capital market. In order to manage market risk, our Finance Committee and the Risk Management Committee sets limits according to the VaR of those positions subject to price risk and for type of instrument. In this regard, our VaR of positions in public and corporate securities as of June 30, 2017 was Ps.102.6 million, while the approved limit was Ps.222.7 million.

As a result of this position, we recorded gross profits of Ps.617.3 million for the six months ended June 30, 2017.

Employees

The following table shows the number of our employees as of the dates indicated:

	As of December 31,			As of June 30, 2017
	2014	2015	2016	
Main office.....	1,682	1,574	1,416	1,321
Branches.....	926	863	768	771
Total.....	2,608	2,437	2,184	2,092

Our employees are represented by a federal union and union membership is optional. As of June 30, 2017, approximately 1,174 of our employees were members of the federal union. We have not experienced significant conflicts with the federal union and believe that relationships with our employees are highly satisfactory. No employee holding managerial positions is a member of a federal union.

Our staff has increased from 2012 to date. In 2012, we had 1,980 employees, reaching 2,092 employees today. During 2013-2015, the number of employees increased to record highs, based on specific needs at that time. Starting in 2015, we began an internal reorganization, reducing the number of employees in certain non-core areas to improve our efficiency. Most of our employees have voluntarily resigned.

Foreign Currency Exposure

In the normal course of our business, we have both assets and liabilities denominated in foreign currency. As of June 30, 2017, our foreign currency denominated liabilities exceeded our foreign currency denominated assets by Ps.1,324.6 million. Additionally, we maintain locally traded foreign currency futures. Also, from time to time we might over-hedge or under-hedge this exposure in order to take advantage of market opportunities.

The following table shows our assets and liabilities denominated in foreign currency as of the dates indicated:

	As of December 31,			As of
	2014	2015	2016	June 30, 2017
	(in millions of pesos)			
Cash and cash resources	1,014.1	4,044.1	3,802.1	1,105.4
Government and corporate securities	680.2	1,021.9	2,578.2	2,513.1
Loans	929.3	893.9	2,962.4	3,478.0
Other receivables from financial transactions.....	379.9	358.1	1,071.2	957.6
Deposits.....	(549.0)	(1,182.2)	(3,326.1)	(3,345.0)
Other liabilities for financial transactions.....	(2,242.3)	(4,249.0)	(7,522.7)	(6,848.7)
Subtotal	212.2	886.8	(434.9)	(2,121.6)
Forward purchases marked to market.....	2,625.1	7,810.3	29,756.0	9,377.5
Forward sales marked to market.....	(2,630.9)	(7,550.6)	(29,535.4)	(8,580.5)
Subtotal	(5.8)	259.7	220.6	797.0
Net global foreign currency position	206.5	1,146.5	(214.2)	(1,324.6)

Competition

As a major commercial bank, offering a full range of financial services to all types of businesses and individual customers, we face strong competition from the other large commercial and retail banks. Commercial banks also face increasing competition from other financial intermediaries that can provide larger companies with access to the domestic capital markets as an alternative to bank loans. For further information, see “The Argentine Banking Industry”.

Litigation

Overview

As of June 30, 2017, we had recorded Ps.181.3 million in provisions for pending lawsuits. We determined the amount of provisions based on the amounts claimed and the estimated likelihood of loss. We believe that these legal actions are part of our ordinary course of business, none of which is likely to have a material and adverse effect on our business activities or financial condition. See “Risk Factors—Risks Relating to the Argentine Financial System—The Consumer Protection Law may limit some of the rights afforded to us” and “—Class actions against financial institutions for unliquidated amounts may adversely affect the financial system’s profitability”.

Proceedings before Administrative Authorities

As of June 30, 2017, given the current status of the proceedings and taking into account that there are legal and factual arguments that generate reasonable expectations for the rendering of an acquittal of the imputed natural persons and Banco Hipotecario S.A., no estimates have been recorded.

Resolution No. 209/13 of the UIF

On February 19, 2014, the Bank was notified of Resolution No. 209/13, which ordered the opening of an investigation against the Bank, our directors (Mr. Eduardo S. Elsztain, Mr. Mario Blejer, Mr. Ernesto M. Viñes, Mr. Jacobo J. Dreizzen, Mr. Edgardo L. Fornero, Mr. Carlos B. Pisula, Mr. Gabriel G. Reznik, Mr. Pablo D. Vergara del Carril, Mr. Mauricio E. Wior, and Saul Zang); our Risk and Controlling Area Manager, Mr. Gustavo D. Efkhonian and our Manager of the Money Laundering Prevention and Control Unit, Mr. Jorge Gimeno. The investigation is aimed at determining the responsibility of the persons under investigation for alleged non-compliance with the provisions of art. 21 of Law 25,246 and its amendments and of UIF Resolution No. 228/2007, based on deficiencies in the organization and internal controls implemented to prevent money laundering arising from illegal activities, which were detected in a Central Bank inspection between December 6, 2010 and January 28, 2011. On March 25, 2014, the defenses on behalf of the Bank and the individuals under investigation were filed. On July 7, 2016, the charges against Gustavo Daniel Efkhonian, Jorge Gimeno, and former director Mr. Marcelo G. Cufre were dismissed and such related investigations ceased. In January 24, 2017, the investigator summoned former directors of the Bank, Clarisa Lifsic de Estol, Federico Besando and Diego Bossio, to depose and charges were filed against them as additional defendants. These four former directors have filed their respective defenses.

Resolution No. 76/15: Unidad de Información Financiera

On August 11, 2015 we were notified of Resolution No. 76/15, adopted by the president of the Financial Information Unit, pursuant to which summary proceedings were instituted against us, our board of directors (Eduardo Sergio Elsztain, Mario Blejer, Jacobo Julio Dreizzen, Carlos B. Pisula, Ernesto M. Viñes, Gabriel G. Reznik, Pablo D. Vergara del Carril, Mauricio Wior, Saúl Zang, Edgardo Fornero, Diego Bossio, Mariana González and Ada Massa) and the compliance officer (Mr. Ernesto M. Viñes) for the alleged violation of Section 21 a) of Law No. 25,246 and UIF Resolution No. 121/11. Under the above mentioned resolution, it was alleged we and our directors are liable for certain violations related to the method of identifying customers, monitoring requirements, defining the matrix of risk and procedures for updating customer data and profiles, among other infringements.

On September 23, 2015, the relevant defenses and answers were filed with the UIF, documentary evidence was submitted and reporting, IT expert and witness evidence was presented. On April 13, 2016, the opening hearing for trial was held. Among these defenses, we included the report issued by the Central Bank regarding the adequacy and risk mitigation plan submitted by the Bank. Finally, at the conclusion of this evidentiary stage, the defendants submitted their motions to exclude evidence regarding the evidence produced.

Resolution No. 219/16: Superintendent of Financial and Foreign Exchange Institutions

On May 10, 2016 we were notified of Resolution No. 219, dated April 22, 2016, passed by the Superintendent of Financial and Foreign Exchange Institutions ordering the start of Summary Proceeding No. 6845 on foreign exchange matters against BHSA, Ricardo José González, Luciana Sabrina Fusco and Liliana Elisabeth Sabella, pursuant to Section 8 of the Foreign Exchange Criminal Regime Law. The summary proceedings alleged a violation of certain provisions for selling foreign currency for an amount of US\$69,620 relating to a mortgage loan transaction, without meeting one of the requirements established by the normative (Communications "A" 5318, 5322 and supplementary rules).

On November 18, 2016, the defenses were presented.

Court Proceedings

As of June 30, 2017, we had registered provisions in respect of pending proceedings before the courts for Ps.181.3 million. The amount of provisions was determined on the basis of the amounts claimed and the estimated likelihood of loss. We believe that these legal actions are part of our ordinary course of business, and we do not believe that any of these claims are likely to materially and adversely affect our business activities or consolidated financial condition.

Resolution No. 685/14: Superintendent of Financial and Foreign Exchange Institutions

On October 31, 2014, we were notified of Resolution No. 685, by the Office of the Superintendent of Financial and Foreign Exchange Institutions of the Central Bank, whereby us and our directors were charged with alleged breaches of the rules and regulations enacted by the Central Bank concerning financial aid to the Non-Financial Public Sector, exceeding the limits of credit risk ratios *vis-à-vis* the non-financial public sector, exceeding in the assets applied as collateral, failure to abide by the minimum capital requirements and objections to the accounting treatment afforded to the transaction entitled “Cer Swap Linked to PG08 and External Debt;” and also, delays in communicating the appointment of new directors and delay in the supply of documentation related to the new directors appointed by the shareholders’ meetings.

By virtue of the above-mentioned resolution, a Ps.4,040,000 fine was imposed on us, and fines aggregating Ps.51,581,790 were imposed on our directors (Eduardo S. Elsztain; Jacobo J. Dreizzen; Carlos B. Pisula; Edgardo L. Fornero; Gabriel G. Resnik; Pablo D. Vergara del Carril; Ernesto M. Viñes; Saúl Zang; Mauricio E. Wior), our former directors (Clarisa D. Lifsic de Estol; Federico L. Bensadon; Jorge L. March and Jaime A. Grinberg), our members of the Supervisory Committee (Ricardo Flammini; José D. Abelovich; Marcelo H. Fuxman; Alfredo H. Groppo; and Martín E. Scotto), the Area Manager Gustavo D. Efkhanian and our former managers (Gabriel G. Saidon and Enrique L. Benítez). By virtue of this resolution, the former trustee, Silvia M. Gentile, was acquitted.

On November 25, 2014, we and the individual defendants filed an appeal pursuant to Section 42 of the Law of Financial Institutions. The Central Bank sent the appeal to the Federal Court of Appeals in Contentious and Administrative Matters. Also pending before the same court are the remedies filed by us and the individual defendants on December 30, 2014 to stay the collection proceedings brought by the Central Bank to collect the fines.

On June 30, 2015, the Federal Court of Appeals issued a resolution dismissing the requests for injunction filed by the Bank and several of our Directors, statutory auditors and managers, aimed at suspending the payment of the penalties imposed by the Central Bank, pending the resolution of the appeal against such measures. For the purpose of avoiding any further conflicts and monetary damages, our Executive Committee decided to enforce the indemnity rules applicable to the current and former directors, statutory auditors and senior officers as approved by our board of directors at their meetings dated August 2, 2002 and May 8, 2013, and deposited the relevant penalties, including the monetary sanction imposed on the Bank for Ps.57.8 thousand, without deducting the sum covered under the D&O insurance policy or the sum of the indemnity guarantee set forth under Decree No. 196/2015 concerning the Directors appointed by the Argentine government.

Although we believe that the fine imposed by the Central Bank should be revoked by the Court, as of June 30, 2016 we had established a provision equal to full amount of the fine imposed by Resolution No. 685/14 against us.

The court ordered the imposition of fines against the defendants. For that reason, the deposits that had been made as guarantees were applied towards the payment of the defendants’ respective economic sanctions. The decision of the National Chamber of Federal Administrative Litigation regarding the appeal filed at the end of 2014 against the resolution of the Central Bank is still pending.

Resolution No. 611/13: Superintendent of Financial and Foreign Exchange Institutions

The Bank was notified on September 13, 2013 of Resolution No. 611 issued by the Financial Superintendency, which ordered the opening of an investigation against us, our Organization and Procedures Manager, Mr. Christian Giummarra and our former Systems Manager, Ms. Aixa Manelli (Exchange Controls Investigation No. 5469 – Case file 100.082 / 08); based on the alleged breach of exchange regulations for the sale of foreign currency to persons suspended by the Central Bank from the buying and selling of foreign currency. The cumulative amount of foreign currency sales of the alleged infringement was US\$39.9 thousand and US\$1.1 thousand. The defenses have been presented. This investigation was consolidated with another investigation in the Financial Superintendency (Case file 101.327 / 10). In later case, the accumulated amount of foreign currency sales of the alleged infringement was US\$ 86 thousand. The defenses were filed timely for all the defendants. In September 2016, the case (including both investigations) was sent by the Central Bank to the Economic Criminal Court to issue a decision to operate in the currency exchange market. The defendants filed a writ describing the system implemented by the Central Bank to communicate the disqualifications to operate in the currency exchange market.

According to the opinion of the defense attorneys, at the current state of proceedings, there are legal and factual arguments that generate reasonable expectations for the rendering of an acquittal of the imputed natural persons and of Banco Hipotecario, therefore the likelihood that the Bank will be subject to the economic sanctions contemplated by the Law on Foreign Exchange Penalty is low.

Resolution No. 416/14: Superintendent of Financial and Foreign Exchange Institutions

On August 26, 2014, we were notified of Resolution No. 416/14 adopted by the Superintendent of Financial and Foreign Exchange Institutions, dated August 7, 2014, whereby summary proceedings were filed pursuant to Section 8 of the Foreign Exchange Criminal Law No. 19,359 (as restated by Decree No. 480/95). In these proceedings, charges were filed against us, our directors (Eduardo S. Elsztain; Jacobo J. Dreizzen; Edgardo L. Fornero; Carlos B. Pisula; Gabriel G. Resnik; Pablo D. Vergara del Carril; Ernesto M. Viñes; Saúl Zang; and Mauricio E. Wior), our former directors (Clarisa D. Lifsic de Estol and Federico L. Bensadon), and two former managers (Gabriel G. Saidón and Enrique L. Benitez) for failure to comply with the rules set forth in Communication “A” 3471 (points 2 and 3) and Communication “A” 4805 (point 2.2), both issued by the Central Bank, by reason of transfers of foreign currency abroad between August and October of 2008, to secure a swap transaction entitled “CER Swap Linked to PG08 and External Debt” totaling US\$46,000 without the authorization of the Central Bank. The relevant defenses and answers were filed and the evidence supporting all the defendants’ rights was presented. Upon conclusion of the administrative proceedings, the case was sent to the Criminal Economic Courts. On November 18, 2015, the Criminal Economic Court No. 3 declared that it lacked jurisdiction to hear the case; therefore, the proceedings were forwarded to the Court with Jurisdiction over Criminal Economic Matters No. 2, which has still not determined whether it has competent jurisdiction. The issue of jurisdiction was resolved and the proceedings were filed before the Court of Dr. Rafael E. Caputo on October 31, 2016.

By sentence of September 27, 2017, Judge Dr. Rafael F. Caputo of the Court for Financial Crimes ordered that the Bank be acquitted, directors and former managers involved in the proceeding, a judgement that is not final until the appeal deadline is elapsed. Therefore, it is considered that the probability of the Bank being subject to the economic sanctions contemplated by the Law on Foreign Exchange Penalty is low. Forecasts have not been recorded.

Property

As of June 30, 2017, we owned 23 of our branches, and we leased the remaining 42 branches. On May 1, 1997, we purchased and refurbished a building in downtown Buenos Aires for a total cost of approximately US\$32.0 million to replace the building where our headquarters were located, which had been transferred to the Argentine government under the Privatization Law.

On April 20, 2016, by means of a public auction conducted by the government of the City of Buenos Aires, we acquired the building known as “Edificio del Plata” to be our corporate headquarters as well as a branch, for approximately US\$68.0 million. Edificio del Plata is located at Carlos Pellegrini No. 211/291 – Sarmiento No. 980/922, Carabelas No. 222/286 – Tte. Gral. Juan Domingo Perón No. 981/993. According to Article 3 of Decree 208/16, we are required to pay (i) 15% of the acquisition price within seven business days from the date of the public auction and (ii) the remaining 85% when executing the public deed and entering into possession of the building, which should occur within 365 days of the public auction. We are currently evaluating remodeling this property and potentially moving our headquarters to this building. In connection with this initiative, we may partner with other investors or third parties to optimize efficiencies and mitigate potential risks of development and construction. We may engage in new real estate projects in the future in order to increase the efficiency of our operations.

The following table shows the geographical distribution of our branches as of June 30, 2017:

	As of June 30, 2017
City of Buenos Aires	7
Provincia de Buenos Aires	22
Catamarca.....	1
Córdoba.....	5
Corrientes.....	1
Chaco.....	1
Chubut.....	2
Entre Ríos.....	2
Formosa.....	1
Jujuy.....	1
La Pampa.....	2
La Rioja.....	1
Mendoza.....	2
Misiones.....	1
Neuquén.....	1
Rio Negro.....	1
Salta.....	1
San Juan.....	1
San Luis.....	1
Santa Cruz.....	2
Santa Fe.....	5
Santiago del Estero.....	1
Tucumán.....	2
Tierra del Fuego.....	1
Total.....	<u>65</u>

The following charts, which have been prepared on an individual and consolidated basis and are based on our internal information, set forth changes in our property, plant and equipment and miscellaneous properties as of the relevant period.

Changes in Property, Plant and Equipment and Miscellaneous Properties of the Bank on an Individual Basis

Item	Residual value at the beginning of the period	Additions	Transfers	Retirements	Impairment Losses	Depreciation for the Year		Residual value as of the six-month period ended June 30, 2016	Residual value as of the six-month period ended June 30, 2017
						Years of useful life	Amount		
Property, Plant and Equipment									
- Real Property	146,810	51	45,650	—	—	50	1,680	143,128	190,831
- Fitting and Fixture...	54,337	9,897	—	(112)	—	10	3,958	32,766	60,164
- Machinery and equipment.....	91,698	1,573	—	(114)	—	5	11,668	34,592	81,489
- Computing equipment.....	59,787	30,405	—	—	—	3	22,067	69,197	68,125
- Vehicles	386	—	—	—	—	5	48	434	338
- Others	4,745	291	—	(16)	—	5	725	4,049	4,295
Total.....	357,763	42,217	45,650	(242)	—	—	40,146	284,166	405,242
Miscellaneous Equipment									
- Works in progress....	51,458	1,209,506	(52,797)	—	—	—	—	12,954	1,208,167
- Artworks and collectible works....	226	—	—	—	—	—	—	226	226
- Leased property	2,610	—	—	—	—	50	58	2,520	2,552
- Property taken in defense of loans.....	1,596	—	—	—	—	50	11	1,608	1,585
- Stationary and tools	32,555	2,707	—	—	—	—	—	30,848	35,262
- Other miscellaneous property.....	21,021	—	7,148	(22,228)	—	50	46	21,106	5,895
- Advances for purchase of property.....	176,551	—	(176,551)	—	—	—	—	176,551	—
Total.....	286,017	1,212,213	(22,200)	(22,228)	—	—	115	245,813	1,253,687

Changes in Property, Plant and Equipment and Miscellaneous Properties of the Bank's Subsidiaries

Item	Residual value at the beginning of the period ended	Additions	Transfers	Retirements	Impairment Losses	Depreciation for the Year		Residual value as of the six-month period ended June 30, 2016	Residual value as of the six-month period ended June 30, 2017
						Years of useful life	Amount		
Property, Plant and Equipment									
– Real Property	—	—	—	—	—	50	—	—	—
– Fitting and Fixture	6,684	1,205	622	—	—	10	896	6,152	7,615
– Machinery and equipment	2,514	960	—	—	—	5	874	2,922	2,600
– Computing equipment	15,810	2,114	—	—	—	3	2,641	14,503	15,283
– Vehicles	—	—	—	—	—	5	—	—	—
– Others	7,586	2,293	—	—	—	5	2,978	9,354	6,901
Total	32,594	6,572	622	—	—	—	7,389	32,932	32,399
Miscellaneous Equipment									
– Works in progress ..	—	—	—	—	—	—	—	—	—
– Artworks and collectible works ..	—	—	—	—	—	—	—	—	—
– Leased property	—	—	—	—	—	50	—	—	—
– Property taken in defense of loans ...	—	—	—	—	—	50	—	—	—
– Stationary and tools	—	—	—	—	—	—	—	—	—
– Other miscellaneous property	9,818	3,460	3,074	—	—	50	2,997	7,654	13,355
Total	9,818	3,460	3,074	—	—	—	2,997	7,654	13,355

Changes in Property, Plant and Equipment and Miscellaneous Properties on a Consolidated Basis

Item	Residual value at the beginning of the period	Additions	Transfers	Retirements	Impairment Losses	Depreciation for the Year		Residual value as of the six-month period ended June 30, 2016	Residual value as of the six-month period ended June 30, 2017
						Years of useful life	Amount		
Property, Plant and Equipment									
– Real Property	146,810	51	45,650	—	—	50	1,680	143,128	190,831
– Fitting and Fixture ..	61,021	11,102	622	(112)	—	10	4,854	38,918	67,779
– Machinery and equipment	94,212	2,533	—	(114)	—	5	12,542	37,514	84,089
– Computing equipment	75,597	32,519	—	—	—	3	24,708	83,700	83,408
– Vehicles	386	—	—	—	—	5	48	434	338
– Others	12,331	2,584	—	(16)	—	5	3,703	13,404	11,197
Total	390,357	48,789	46,272	(242)	—	—	47,535	317,098	437,642
Miscellaneous Equipment									
– Works in progress ..	51,458	1,209,506	(52,797)	—	—	—	—	12,954	1,208,167
– Artworks and collectible works ..	226	—	—	—	—	—	—	226	226
– Leased property	2,610	—	—	—	—	50	58	2,520	2,552
– Property taken in defense of	1,596	—	—	—	—	50	11	1,608	1,585
– Stationary and tools	32,555	2,707	—	—	—	—	—	30,848	35,262
– Other miscellaneous property	30,839	3,460	10,222	—	—	50	3,043	28,760	19,250
– Advances for purchase of property	176,551	—	(176,551)	—	—	—	—	176,551	—
Total	295,835	1,215,673	(219,126)	—	—	—	3,112	253,467	1,267,042

SELECTED STATISTICAL INFORMATION

We included the following information for analytical purposes and you should read it in conjunction with our audited financial statements, appearing elsewhere in this offering memorandum, as well as with the sections “Presentation of Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Selected Financial and Other Information”.

Average Balances, Interest Earned on Interest-Earning Assets and Interest Paid on Interest-Bearing Liabilities; Average Nominal and Real Rates

The tables below set forth by, currency of denomination, average balances and, where applicable, interest earned on interest-earning assets and interest paid on interest-bearing liabilities for the years ended December 31, 2014, 2015 and 2016. The average balances for interest-earning assets and interest-bearing liabilities have been calculated on the basis of our daily balances. Average balances have been presented in Argentine pesos and in U.S. Dollars because of the different rates of interest that have historically been earned and paid in Argentina on assets and liabilities denominated in those currencies. Average yields have been calculated by dividing interest earned on assets or paid on liabilities by the corresponding average balances on such assets or liabilities.

	For the year ended December 31,								
	2014			2015			2016		
	Average Balance	Interest earned/ paid	Average yields	Average Balance	Interest earned/ paid	Average yields	Average Balance	Interest earned/ paid	Average yields
	(in thousands of pesos, except for percentages)								
ASSETS									
INTEREST-EARNING ASSETS									
Cash and due from banks									
Pesos	1,611,798	(963)	(0.06%)	2,227,128	3,593	0.16%	2,072,004	15,200	0.73%
U.S. dollars	605,296	(11,267)	(1.86%)	967,945	(6,190)	(0.64%)	1,643,993	114	0.01%
Total	2,217,094	(12,230)	(0.55%)	3,195,073	(2,597)	(0.08%)	3,715,997	15,314	0.41%
Government and corporate securities									
Pesos	3,003,755	785,091	26.14%	4,749,652	1,271,803	26.78%	6,108,557	1,462,412	23.94%
U.S. dollars	971,719	81,514	8.39%	743,398	142,161	19.12%	2,790,761	43,253	1.55%
Total	3,975,474	866,605	21.80%	5,493,050	1,413,964	25.74%	8,899,318	1,505,665	16.92%
Mortgage loans									
Pesos	2,251,240	360,788	16.03%	2,453,481	434,430	17.71%	2,769,737	495,644	17.89%
U.S. dollars	—	—	—	—	—	—	—	—	—
Total	2,251,240	360,788	16.03%	2,453,481	434,430	17.71%	2,769,737	495,644	17.89%
Personal loans									
Pesos	2,152,665	840,196	39.03%	2,727,314	1,087,149	39.86%	3,810,977	1,445,050	37.92%
U.S. dollars	—	—	—	—	—	—	—	—	—
Total	2,152,665	840,196	39.03%	2,727,314	1,087,149	39.86%	3,810,977	1,445,050	37.92%
Credit card loans									
Pesos	5,642,947	1,509,630	26.75%	7,947,299	2,153,739	27.10%	10,788,626	3,477,649	32.23%
U.S. dollars	32,306	—	0.00%	75,170	—	0.00%	160,643	—	—
Total	5,675,253	1,509,630	26.60%	8,022,469	2,153,739	26.85%	10,949,269	3,477,649	32.23%
Overdraft facilities									
Pesos	984,158	286,263	29.09%	845,084	243,929	28.86%	622,518	209,905	33.72%
U.S. dollars	—	—	—	—	—	—	—	—	—
Total	984,158	286,263	29.09%	845,084	243,929	28.86%	622,518	209,905	33.72%
Other loans									
Pesos	2,393,101	723,720	30.24%	3,272,406	1,005,008	30.71%	3,292,607	1,082,995	32.89%
U.S. dollars	921,779	54,232	5.88%	978,614	56,014	5.72%	1,697,309	103,588	6.10%
Total	3,314,880	777,952	23.47%	4,251,020	1,061,022	24.96%	4,989,916	1,186,583	23.78%
Public sector loans									
Pesos	128,461	26,885	20.93%	88,798	17,110	19.27%	114,224	19,161	16.77%
U.S. dollars	—	—	—	—	—	—	—	—	—
Total	128,461	26,885	20.93%	88,798	17,110	19.27%	114,224	19,161	16.77%
Interbank loans									
Pesos	352,614	63,172	17.92%	286,120	53,008	18.53%	403,127	100,559	24.94%
U.S. dollars	—	—	—	—	—	—	—	—	—
Total	352,614	63,172	17.92%	286,120	53,008	18.53%	403,127	100,559	24.94%
Financial trusts									
Pesos	834,595	116,602	13.97%	1,884,231	404,010	21.44%	3,534,171	741,702	20.99%
U.S. dollars	18,614	441	2.37%	19,905	547	2.75%	33,887	1,720	5.08%
Total	853,209	117,043	13.72%	1,904,136	404,557	21.25%	3,568,058	743,422	20.84%
Bonds									
Pesos	116,444	41,970	36.04%	75,248	33,055	43.93%	173,991	51,601	29.66%
U.S. dollars	241,287	9,968	4.13%	85,040	18,766	22.07%	69,466	15,278	21.99%
Total	357,731	51,938	14.52%	160,288	51,821	32.33%	243,457	66,879	27.47%
Repurchase agreements of government securities									
Pesos	326,110	51,368	15.75%	412,986	89,690	21.72%	609,711	143,090	23.47%
U.S. dollars	34,456	16	0.05%	24,314	12	0.05%	—	12	—
Total	360,566	51,384	14.25%	437,300	89,702	20.51%	609,711	143,102	23.47%

	For the year ended December 31,								
	2014			2015			2016		
	Average Balance	Interest earned/paid	Average yields	Average Balance	Interest earned/paid	Average yields	Average Balance	Interest earned/paid	Average yields
	(in thousands of pesos, except for percentages)								
Total interest earning assets									
Pesos	19,797,888	4,804,722	24.27%	26,969,747	6,796,524	25.20%	34,300,250	9,244,968	26.95%
U.S. dollars.....	2,825,457	134,904	4.77%	2,894,386	211,310	7.30%	6,396,060	163,965	2.56%
Total	22,623,345	4,939,626	21.83%	29,864,133	7,007,834	23.47%	40,696,310	9,408,932	23.12%
NON-INTEREST-EARNING ASSETS									
Cash									
Pesos	571,941			450,740			503,388		
U.S. dollars.....	279,589			305,381			343,765		
Total	851,530			756,121			847,154		
Fixed assets									
Pesos	196,697			251,144			563,500		
U.S. dollars.....	—			—			—		
Total	196,697			251,144			563,500		
Other									
Pesos	2,259,689			3,016,033			5,458,468		
U.S. dollars.....	312,582			230,356			895,761		
Total	2,572,271			3,246,389			6,354,229		
Reserve for loan losses									
Pesos	(343,633)			(420,153)			(523,810)		
U.S. dollars.....	(12,422)			(12,974)			(18,880)		
Total	(356,055)			(433,127)			(542,690)		
Total non-interest earning assets, net									
Pesos	2,684,694			3,297,764			6,001,547		
U.S. dollars.....	579,749			522,763			1,220,647		
Total	3,264,443			3,820,527			7,222,192		
TOTAL ASSETS									
Pesos	22,482,582			30,267,511			40,301,798		
U.S. dollars.....	3,405,206			3,417,149			7,616,707		
Total	25,887,788			33,684,660			47,918,505		
LIABILITIES									
INTEREST BEARING LIABILITIES									
Savings accounts									
Pesos	1,100,302	1,958	0.18%	1,719,629	2,905	0.17%	1,705,927	3,076	0.18%
U.S. dollars.....	74,901	53	0.07%	119,172	76	0.06%	269,404	174	0.06%
Total	1,175,203	2,011	0.17%	1,838,801	2,981	0.16%	1,975,331	3,250	0.16%
Checking accounts									
Pesos	1,035,083	—	0.00%	1,467,849	—	0.00%	131,806	—	—
U.S. dollars.....	—	—	—	—	—	—	—	—	—
Total	1,035,083	—	0.00%	1,467,849	—	0.00%	131,806	—	—
Time deposits									
Pesos	8,413,502	1,651,046	19.62%	11,625,856	2,296,760	19.76%	13,709,320	3,302,266	24.09%
U.S. dollars.....	707,841	7,058	1.00%	492,382	3,316	0.67%	2,168,920	37,164	1.71%
Total	9,121,343	1,658,104	18.18%	12,118,238	2,300,076	18.98%	15,878,240	3,339,430	21.03%
Other banks and international entities									
Pesos	353,580	108,923	30.81%	339,197	146,084	43.07%	595,746	185,389	31.12%
U.S. dollars.....	37,514	2,397	6.39%	4,940	330	6.68%	329	73	22.30%
Total	391,094	111,320	28.46%	344,137	146,414	42.55%	596,075	185,462	31.11%
Bonds									
Pesos	1,587,760	402,406	25.34%	2,597,208	645,690	24.86%	3,700,078	1,531,587	41.39%
U.S. dollars.....	1,939,013	176,743	9.12%	2,329,274	242,637	10.42%	5,810,808	443,554	7.63%
Total	3,526,773	579,149	16.42%	4,926,482	888,327	18.03%	9,510,886	1,975,141	20.77%
Reverse repurchase agreements of governmental entities									
Pesos	270,306	46,541	17.22%	131,167	26,666	20.33%	346,067	90,717	26.21%
U.S. dollars.....	—	—	—	—	—	—	—	—	—
Total	270,306	46,541	17.22%	131,167	26,666	20.33%	346,067	90,717	26.21%
Other liabilities									
Pesos	668	—	0.01%	589	45	7.64%	281	128	45.67%
U.S. dollars.....	—	—	—	—	—	—	—	—	—
Total	668	—	0.01%	589	45	7.64%	281	128	45.67%
Total interest bearing liabilities									
Pesos	12,761,201	2,210,874	17.32%	17,881,495	3,118,150	17.44%	20,189,225	5,113,164	25.33%
U.S. dollars.....	2,759,269	186,251	6.75%	2,945,768	246,359	8.36%	8,249,461	480,965	5.83%
Total	15,520,470	2,397,125	15.44%	20,827,263	3,364,509	16.15%	28,438,686	5,594,129	19.67%

	For the year ended December 31,								
	2014			2015			2016		
	Average Balance	Interest earned/ paid	Average yields	Average Balance	Interest earned/ paid	Average yields	Average Balance	Interest earned/ paid	Average yields
	(in thousands of pesos, except for percentages)								
NON-INTEREST BEARING LIABILITIES									
Deposits									
Pesos	2,454,073			3,017,124			3,300,449		
U.S. dollars.....	58,387			71,192			121,562		
Total	<u>2,512,460</u>			<u>3,088,316</u>			<u>3,422,011</u>		
Other deposits									
Pesos	3,231,534			4,645,575			9,025,735		
U.S. dollars.....	304,269			271,705			1,011,600		
Total	<u>3,535,803</u>			<u>4,917,280</u>			<u>10,037,335</u>		
SHAREHOLDERS' EQUITY									
Pesos	4,258,027			4,777,209			6,139,544		
U.S. dollars.....	—			—			—		
Total	<u>4,258,027</u>			<u>4,777,209</u>			<u>6,139,544</u>		
NON-CONTROLLING INTEREST									
Pesos	61,028			74,592			(119,070)		
U.S. dollars.....	—			—			—		
Total	<u>61,028</u>			<u>74,592</u>			<u>(119,070)</u>		
NON-INTEREST BEARING LIABILITIES AND SHAREHOLDERS' EQUITY									
Pesos	10,004,662			12,514,500			18,346,658		
U.S. dollars.....	362,656			342,897			1,133,162		
Total	<u>10,367,318</u>			<u>12,857,397</u>			<u>19,479,820</u>		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY									
Pesos	22,765,863			30,395,995			38,535,882		
U.S. dollars.....	3,121,925			3,288,665			9,382,623		
Total	<u>25,887,788</u>			<u>33,684,660</u>			<u>47,918,505</u>		

Changes in Interest Income and Interest Expenses; Volume and Rate Analysis

The following table sets forth, by currency of denomination, changes in our financial income and interest expense on deposits and other liabilities from financial transactions between changes in the average volume of interest-earning assets and interest-bearing liabilities from December 31, 2014 to December 31, 2015 and from December 31, 2015 to December 31, 2016. Volume and interest rate variances were calculated based on movements in average monthly balances and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities. The net change attributable to changes in both volume and interest rate were allocated proportionately between volume and rate.

	For the year ended December 31,					
	2014/2015			2015/2016		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(in thousands of pesos)					
INTEREST EARNING ASSETS						
Cash equivalents and due from banks						
Pesos	7,832	(20,167)	(12,335)	(3,446)	9,182	5,736
U.S. dollars	(3,908)	(2,905)	(6,813)	(4,323)	10,627	6,304
Total	3,924	(23,072)	(19,148)	(7,769)	19,809	12,040
Government and corporate securities						
Pesos	276,342	222,897	499,239	(111,672)	(153,936)	(265,608)
U.S. dollars	(4,097)	(2,527)	(6,624)	391,520	(490,429)	(98,909)
Total	272,245	220,370	492,615	279,848	(644,365)	(364,517)
Mortgage loans						
Pesos	29,366	48,691	78,057	(14,244)	(33,211)	(47,456)
U.S. dollars	—	—	—	—	—	—
Total	29,366	48,691	78,057	(14,244)	(33,211)	(47,456)
Personal loans						
Pesos	244,295	68,743	313,038	189,787	(70,892)	118,895
U.S. dollars	—	—	—	—	—	—
Total	244,295	68,743	313,038	189,787	(70,892)	118,895
Credit card						
Pesos	424,680	195,738	620,418	133,911	388,401	522,313
U.S. dollars	—	—	—	—	—	—
Total	424,680	195,738	620,418	133,911	388,401	522,313
Overdraft facilities						
Pesos	(74)	94,508	94,434	(21,599)	43,213	21,614
U.S. dollars	—	—	—	—	—	—
Total	(74)	94,508	94,434	(21,599)	43,213	21,614
Other loans						
Pesos	318,851	113,576	432,427	(270,954)	60,103	(210,852)
U.S. dollars	8,187	(7,473)	714	41,137	6,438	47,576
Total	327,038	106,103	433,141	(229,817)	66,541	(163,276)
Public sector loans						
Pesos	7,689	(1,250)	6,439	15,333	(83)	15,250
U.S. dollars	—	—	—	—	—	—
Total	7,689	(1,250)	6,439	15,333	(83)	15,250
Interbank loans						
Pesos	1,125	3,794	4,919	31,435	16,209	47,644
U.S. dollars	—	—	—	—	—	—
Total	1,125	3,794	4,919	31,435	16,209	47,644
Financial trusts						
Pesos	81,679	(117,697)	(36,018)	144,780	(70,923)	73,857
U.S. dollars	9	(232)	(223)	384	789	1,173
Total	81,688	(117,929)	(36,241)	145,164	(70,134)	75,030
Negotiable obligations						
Pesos	2,073	9,152	11,225	49,042	(19,920)	29,123
U.S. dollars	2,691	(33,002)	(30,311)	(3,437)	(51)	(3,488)
Total	4,764	(23,850)	(19,086)	45,605	(19,971)	25,635
Reverse repurchase agreements						
Pesos	9,722	14,566	24,288	9,584	(12,223)	(2,639)
U.S. dollars	6	(1)	5	(12)	—	(12)
Total	9,728	14,565	24,293	9,572	(12,223)	(2,651)
Total interest earning assets						
Pesos	1,403,580	632,551	2,036,131	151,957	155,920	307,877
U.S. dollars	2,888	(46,140)	(43,252)	425,269	(472,626)	(47,356)
Total	1,406,468	586,411	1,992,879	577,226	(316,706)	260,521

For the year ended December 31,

	2014/2015			2015/2016		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(in thousands of pesos)					
INTEREST BEARING LIABILITIES						
Savings accounts						
Pesos	188	(114)	74	(1,026)	296	(730)
U.S. dollars	16	(2)	14	97	2	99
Total	204	(116)	88	(929)	298	(631)
Checking accounts						
Pesos	—	—	—	—	—	—
U.S. dollars	—	—	—	—	—	—
Total	—	—	—	—	—	—
Time deposits						
Pesos	461,550	360,175	821,725	(229,877)	492,554	262,677
U.S. dollars	(1,109)	(1,492)	(2,600)	11,291	22,558	33,848
Total	460,441	358,683	819,125	(218,586)	515,112	296,525
Other banks and international entities						
Pesos	25,226	7,486	32,712	71,565	(83,886)	(12,321)
U.S. dollars	3,746	(1,363)	2,383	(308)	51	(257)
Total	28,972	6,123	35,095	71,257	(83,835)	(12,578)
Bonds						
Pesos	159,903	55,173	215,076	26,021	437,057	463,078
U.S. dollars	40,066	338	40,404	362,666	(161,750)	200,917
Total	199,969	55,511	255,480	388,687	275,307	663,995
Repurchase agreements of government securities						
Pesos	36,027	3,661	39,688	59,234	(693)	58,541
U.S. dollars	—	—	—	—	—	—
Total	36,027	3,661	39,688	59,234	(693)	58,541
Other deposits						
Pesos	(1)	(5)	(6)	(29)	173	144
U.S. dollars	—	—	—	—	—	—
Total	(1)	(5)	(6)	(29)	173	144
Total interest-bearing liabilities						
Pesos	682,893	426,376	1,109,269	(74,112)	845,501	771,389
U.S. dollars	42,719	(2,519)	40,201	373,746	(139,139)	234,607
Total	725,612	423,857	1,149,470	299,634	706,362	1,005,996

Interest Earning Assets, Net Interest Margin and Net Interest Spread

The following table presents, by currency of denomination, our levels of average interest-earning assets, net interest income, gross yield, net interest margin and yield spread all on a nominal basis for each of the periods indicated.

	For the year ended December 31,		
	2014	2015	2016
	(in thousands of pesos, except for percentages)		
Total average interest earning assets			
Pesos	19,797,888	26,969,747	34,300,251
U.S. dollars.....	2,825,457	2,894,386	6,396,060
Total.....	22,623,345	29,864,133	40,696,311
Net interest earned⁽¹⁾			
Pesos	2,593,848	3,678,374	4,131,805
U.S. dollars.....	(51,347)	(35,049)	(316,999)
Total.....	2,542,501	3,643,325	3,814,806
Net interest margin, nominal basis⁽²⁾			
Pesos	13.10%	13.64%	12.05%
U.S. dollars.....	(1.82%)	(1.21%)	(4.96%)
Total.....	11.24%	12.20%	9.37%
Average Nominal Rate Earned			
Pesos	24.27%	25.20%	26.95%
U.S. dollars.....	4.77%	7.30%	2.56%
Total.....	21.83%	23.47%	23.12%
Average Nominal Rate Paid			
Pesos	17.32%	17.44%	25.33%
U.S. dollars.....	6.75%	8.36%	5.83%
Total.....	15.44%	16.15%	19.67%
Net Interest Spread, nominal basis⁽³⁾			
Pesos	6.93%	7.75%	1.63%
U.S. dollars.....	(1.98%)	(1.06%)	(3.27%)
Total.....	6.39%	7.31%	3.45%

(1) Net interest earned corresponds to the net financial income, as set forth in the statement of income, plus: (a) contributions to the deposits security fund, included in financial expenses, (b) gold and foreign currency quotation differences, included in financial expenses, (c) turnover tax on financial income, included in financial expenses and (d) results on securities given as collateral, included in miscellaneous income; minus (a) premiums for forward transactions, included in financial income and (b) results from financial derivative instruments without delivery of underlying asset, included both in financial income and in financial expenses.

(2) Net interest margin is defined as net interest earned divided by average interest-earning assets.

(3) Net interest spread corresponds to average nominal rate earned less average nominal interest rate paid.

Return on Equity and Assets

The following table presents certain of our selected financial information and ratios for the periods indicated.

	For the year ended December 31,		
	2014	2015	2016
	(in thousands of pesos, except for percentages)		
Net income (loss)	549,972	1,085,814	615,328
Average total assets ⁽¹⁾	25,887,788	33,684,660	47,918,505
Average shareholders' equity ⁽¹⁾	4,258,027	4,777,209	5,935,529
Shareholders' equity at the end of the period.....	4,396,907	5,440,904	6,056,228
Declared cash dividends ⁽²⁾	—	—	—
Net income as a percentage of:			
Average total assets	2.12%	3.22%	1.28%
Average shareholders' equity	12.92%	22.73%	10.37%
Average shareholders' equity as a percentage of average total assets.....	16.45%	14.18%	12.39%
Shareholders' equity at the end of the period as a percentage of average total assets.....	16.98%	16.15%	12.64%
Dividends declared per share as a percentage of income per share ⁽³⁾	—	—	—

(1) Computed as the daily average.

(2) For the year ended December 31, 2015 and 2016, our board of directors resolved to not declare and distribute dividends as result of the issuance of Communications "A" 5272 and 5827 of the Central Bank.

(3) As disclosed in our financial statements.

Investment Portfolio: Government and Corporate Securities

General

Our holdings of government and corporate securities comprise government securities issued by the Argentine government (national and provincial), instruments issued by the Central Bank and corporate securities. The securities classified as "Holdings booked at fair market value," "Investments in listed corporate securities" and "Securities issued by the Central Bank" with volatility published by the Central Bank have been valued at fiscal year-end market quotation.

The following table presents our government and corporate securities by type and currency for the periods indicated:

	As of December 31,		
	2014	2015	2016
	(in thousands of pesos)		
Government securities booked at fair value			
In pesos			
National government securities.....	684,951	1,492,885	1,447,625
Provincial government securities.....	—	—	—
Total in pesos	684,951	1,492,885	1,447,625
In U.S. Dollars			
National government securities.....	440,518	705,231	577,840
Provincial government securities.....	357,094	321,017	231,794
Total in U.S. dollars.....	797,612	1,026,248	809,634
Total Government securities booked at fair value	1,482,563	2,519,133	2,257,259
Government securities booked at cost plus return			
In pesos			
National government securities.....	101,943	—	—
Provincial government securities.....	—	329,595	52,921
Total in pesos	101,943	329,595	52,921
In U.S. dollars			
National government securities.....	—	—	807,100
Provincial government securities.....	39,204	199,341	157,064
Total in U.S. dollars.....	39,204	199,341	964,164
Total Government securities booked at cost plus return	141,147	528,936	1,017,085
Securities issued by the Central Bank			
In pesos			
Lebacs quoted.....	636,192	937,617	711,280
Lebacs unquoted.....	1,888,546	877,369	670,796
Nobacs quoted.....	—	—	—
Nobacs unquoted.....	—	—	—
Total securities issued by the Central Bank.....	2,524,738	1,814,986	1,382,076
Corporate securities			
In pesos			
Equity investments	214,643	235,349	105,712
Other securities.....	154,944	354,979	247,142
Total in pesos	369,587	590,328	352,854
In U.S. dollars			
Equity investments	—	—	—
Other securities.....	—	—	—
Total corporate securities.....	369,587	590,328	352,854
Total allowances.....	—	(7,121)	(11,662)
Total government and corporate securities	4,518,035	5,446,262	4,997,612

Maturity Analysis

The following tables analyze the remaining maturities and weighted average yields, where applicable, of our investment portfolio as of December 31, 2016.

	December 2016		Within one year		After 1 year but within 5 years		After 5 years but within 10 years		After 10 years	
	Book Value	Yield	Book Value	Yield	Book Value	Yield	Book Value	Yield	Book Value	Yield
(in thousands of Pesos, except for percentages)										
Government securities booked at fair value										
In pesos										
National Government Securities ..	1,447,625	8.81%	299,296	2.46%	286,620	13.31%	469,942	11.44%	391,766	7.22%
Provincial Government Securities	—	—	—	—	—	—	—	—	—	—
Total in pesos.....	1,447,625	8.81%	299,296	2.46%	286,620	13.31%	469,942	11.44%	391,766	7.22%
In US Dollars										
National Government Securities ..	577,840	3.55%	197,650	1.72%	92,290	1.84%	110,424	8.75%	177,477	3.26%
Provincial Government Securities	231,794	3.57%	14,575	4.65%	217,219	3.50%	—	—	—	—
Total in U.S. dollars	809,634	3.56%	212,225	1.92%	309,509	3.00%	110,424	8.75%	177,477	3.26%
Total Government securities booked at fair value.....	2,257,259	6.93%	511,520	2.23%	596,130	7.96%	580,366	10.93%	569,243	5.99%
Government securities booked at cost plus return										
In pesos										
National Government Securities ..	—	—	—	—	—	—	—	—	—	—
Provincial Government Securities	52,921	23.91%	2,092	24.88%	50,829	23.88%	—	—	—	—
Total in pesos.....	52,921	23.91%	2,092	24.88%	50,829	23.88%	—	—	—	—
In US Dollars										
National Government Securities ..	807,100	10.54%	704,377	10.86%	102,723	8.28%	—	—	—	—
Provincial Government Securities	157,064	3.72%	7	42.89%	157,057	3.72%	—	—	—	—
Total in US Dollars	964,164	9.43%	704,384	10.87%	259,780	5.52%	—	—	—	—
Total Government securities booked at cost plus return.....	1,017,085	10.18%	706,476	10.91%	310,609	8.53%	—	—	—	—
Instruments issued by the Central Bank										
In pesos										
Lebacs quoted	711,280	34.69%	711,280	34.69%	—	—	—	—	—	—
Lebacs unquoted	670,796	24.22%	670,796	24.22%	—	—	—	—	—	—
Nobacs quoted	—	—	—	—	—	—	—	—	—	—
Nobacs unquoted	—	—	—	—	—	—	—	—	—	—
Total Instruments issued by the Central Bank.....	1,382,076	29.61%	1,382,076	29.61%	—	—	—	—	—	—
Corporate securities										
In pesos										
Equity investments	105,712	105.712	—	—	—	—	—	—	—	—
Other securities.....	247,142	247,142	—	—	—	—	—	—	—	—
Total in pesos.....	352,854	352,854	—	—	—	—	—	—	—	—
In US Dollars										
Equity investments	—	—	—	—	—	—	—	—	—	—
Other securities.....	—	—	—	—	—	—	—	—	—	—
Total Corporate Securities	352,854	352,854	—	—	—	—	—	—	—	—
Total Allowances.....	(11,662)	(11,662)	—	—	—	—	—	—	—	—
Total Government and Corporate Securities.....	4,997,612	13.39%	2,952,926	16.85%	906,739	8.15%	580,366	10.93%	569,243	5.99%

(1) Nominal interest rate does not include gain/loss due to foreign currency fluctuation.

Loan Portfolio

The following table presents in nominal terms our loan portfolio by type of loan, at the dates indicated.

	For the Year Ended December 31,		
	2014	2015	2016
	(in thousands of Pesos)		
Mortgage loans	2,232,292	2,493,521	2,581,614
Guaranteed government loans.....	112,133	46,999	153,032
Personals loans	2,354,793	2,970,468	4,611,052
Credit card loans.....	7,155,260	9,903,383	12,663,403
Loan advances	1,173,527	493,226	290,153
Other loans	4,620,666	4,709,084	7,412,062
Accrued interest receivable.....	182,922	224,698	240,825
Reserve for loan losses	(407,140)	(451,751)	(676,141)
Total loan portfolio.....	17,424,453	20,389,628	27,276,000
Loans in trust pending securitization	10,436	9,174	7,345
Leased	106,740	129,179	155,775
Accrued interest receivable.....	4,561	5,892	6,303
Other.....	—	—	—
Reserve for loan losses	(3,416)	(3,210)	(2,922)
Total loans.....	17,542,774	20,530,663	27,442,501

Our loan categories are as follows:

Mortgage loans

We offer peso-denominated mortgage loans with rates adjustable by UVAs. As a general condition, we offer mortgage loans in an amount up to 75% of the property value when the property is to be used as a primary home. When properties are acquired for construction purposes, we generally finance up to 75% of the value of the property. The maximum amount for such loans Ps.5,000,000. The mortgage payment installment may never exceed 30% of the household income, with household understood as comprising both marriage and cohabitation arrangements. We rely on a pre-qualification process to inform applicants as early as possible following initial application of the maximum amount they may borrow if they meet all requirements in terms of personal conditions, credit history and the property to be used as collateral.

Personal loans. Personal loans are generally peso-denominated loans granted to individuals, at a fixed rate, generally up to 80 months and for a maximum amount not to exceed the lesser of (i) the equivalent to the applicant's eight months' income or (ii) Ps.500,000.

Credit card loans. Credit card loans are customarily Visa-branded credit card balances subject to interest charges. Interest accrues daily on a 30- or 360-day basis. Loan payments are scheduled monthly. We have implemented a number of promotional measures for certain time periods and certain lines of business and products, alliances with different sought-after retailers as well as co-branding arrangements. Although we have certain flexibility to determine the interest rate assessed on credit card loans, the rate cannot exceed by more than 25% to that resulting from the average interest rates that we have applied during the immediately preceding month, weighted by the corresponding amount of personal loans without collateral granted in the same period, in accordance with Argentine applicable law.

Overdraft facilities. Overdraft facilities are generally short-term consumer and operating commercial loans under which our customers can draw down funds up to a certain credit limits.

Public sector loans. Public sector loans, or loans to the non-financial public sector, are loans generally denominated in pesos that generally consist of loans granted to the national, provincial and municipal governments (including the ministries, offices, agencies and governmental offices and departments) and non-financial public sector, which is mainly comprised of publicly owned companies. Public sector loans are generally granted with a cash flow guarantee, for a period of up to 36 months, at a floating rate.

Guarantees

The following table presents in nominal terms our loan portfolio by type of guarantee at the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(in thousands of pesos, except for percentages)					
With preferred guarantees	2,378,327	13.2%	2,704,950	12.9%	2,969,395	10.6%
Unsecured	15,575,003	86.8%	18,280,674	87.1%	25,152,168	89.4%
Total loans	17,953,330	100.0%	20,985,624	100.0%	28,121,563	100.0%

Maturity Composition of the Loan Portfolio

The following table sets forth our loan portfolio (before deducting the reserve for loan losses) by type and time remaining to maturity as of December 31, 2016.

	Maturing within one year	Maturing after 1 year but within 5 years	Maturing after 5 years but within 10 years	Maturing after 10 years but within 15 years	Maturing after 15 years but within 20 years	Maturing after 20 years	Amount Past due	Amount as of December 31, 2015
	(in thousands of pesos, except for percentages)							
Mortgage loan	671,087	1,123,139	575,076	276,528	20,849	—	78,055	2,744,734
Personal loans	1,472,543	2,917,374	69,976	—	—	—	151,159	4,611,052
Credit card loans	12,147,158	—	—	—	—	—	516,245	12,663,403
Overdraft facilities	241,164	148	—	—	—	—	48,841	290,153
Other loans	5,552,974	1,790,090	16,632	4,568	—	—	47,798	7,412,062
Public sector loans	60,465	92,567	—	—	—	—	—	153,032
Accrued interest receivable	247,128	—	—	—	—	—	—	247,128
Total loans	20,392,519	5,923,318	661,684	281,096	20,849	—	842,098	28,121,564
Total %	72.52%	21.06%	2.35%	1.00%	0.07%	—	2.99%	100.0%

Loans by Type of Interest Rate

The following table sets forth the loans in our loan portfolio by type of interest rate at the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(in thousands of pesos, except percentages)					
Variable Rate						
Pesos	2,343,885	13.06	3,326,799	15.85	2,468,684	8.78
U.S. dollars	—	—	—	—	—	—
Total	2,343,885	13.06	3,326,799	15.85	2,468,684	8.78
Fixed Rate						
Pesos	14,332,780	79.83	16,526,559	78.76	22,313,167	79.35
U.S. dollars	1,014,477	5.65	886,280	4.22	2,919,660	10.38
Total	15,347,257	85.49	17,412,839	82.98	25,232,827	89.73
Other						
Pesos	262,188	1.46	245,986	1.17	420,052	1.49
U.S. dollars	—	—	—	—	—	—
Total	262,188	1.46	245,986	1.17	420,052	1.49
Total loan portfolio	17,953,330	100.00	20,985,624	100.00	28,121,563	100.00

Loans by Economic Activity

The table below analyzes our loan portfolio according to the borrowers' main economic activity. Loans are stated before deduction of the allowance for loan losses.

	As of December 31,					
	2014		2015		2016	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(in millions of pesos, except percentages)					
Consumer	11,318,236	63.00	14,753,387	70.30	19,361,913	68.90
Industry and mining.....	3,283,257	18.30	3,669,281	17.50	3,967,679	14.10
Wholesale trade	1,117,335	6.20	805,188	3.80	1,208,300	4.30
Services	1,018,658	5.70	946,155	4.50	2,062,864	7.30
Agricultural	362,386	2.00	425,015	2.00	665,256	2.40
Construction	437,621	2.40	361,888	1.70	260,966	0.90
Other.....	415,837	2.30	24,710	0.20	594,585	2.10
Total loans	17,953,330	100.00	20,985,624	100.00	28,121,563	100.00

Credit Policies

Corporate Risk Culture: General Management Principles

We have a comprehensive risk management process created in order to manage, identify, assess, monitor and mitigate significant risks. In addition, our comprehensive risk management process intends to have our board of directors and senior management involved in the risk management process, monitoring the activities and understanding the nature and level of risk assumed by us in connection with our capital requirements.

Our risk management process is in compliance with the guidelines established by the Central Bank for financial institutions in Argentina (Communications "A" 5398, 6210 as amended and supplemented). Our risk management process provides for an adequate risk assessment. The process is applied against a framework of management and it requires the use of different risk management tools.

Organizational Structure

We have different units that are responsible for managing each one of our significant risks comprised in our policy. These units take the form of a committee or are made up by management level areas. In addition, we have a risk management committee which is comprised of at least three directors and by the highest ranking officer in the risk and controlling area. The main purpose of this committee is to monitor certain senior management's activities in connection with risk management and to advise the board of directors on our risks.

Credit Risk – Corporate Banking

Our corporate banking business focuses on strengthening and expanding our relationships with large corporations, small and medium-sized companies, real estate and financial institutions that are based locally. We also originate business with public sector organizations.

Corporate banking objectives are agreed upon annually, including: (i) volume of transactions to be granted on different business segments and taking into account the diversification of the portfolio regarding the economy sector; (ii) credit risk ratings; (iii) duration of the transactions; and (iv) collaterals, among others factors which are carefully taken into consideration to achieve and maintain a balanced portfolio. As part of the global Corporate Banking strategy, credit risk appetite is established, and different limits are settled and monitored using indicators, such as percentage of maximum risk in every economic sector, chances of default and non-performing loans, as well as portfolio concentration.

Corporate credit origination is governed by strong credit policies and analysis of every transaction is conducted by a team of specialists in this matter. The Credit Risk department is divided into different units based on the economic sector of the transaction. An internal credit risk rating is assigned to every company in order to settle the dimension of risk undertaken and price the deal considering the risk expected.

Moreover, clients with payment delays are managed by a special recovery sector with independence from credit risk and commercial departments.

All transactions are subjected to the approval of our Credit Risk Committee, which could require approval of our Executive Committee or board of directors depending on the final amount of the transaction, in the case of loans for significant amounts.

Other methodologies have been developed to periodically monitor credit risk, including stress testing, with both global and ad hoc tests, which allow us to assess the impact on the portfolio of a potential deviation from the variables under study. Capital allocation is also used as a methodology which estimates a measure of the risk assumed that is consistent with the measure of the other types of risk and the historical volatility of the default rate, and losses in view of the default both in normal and in stress situations. These two instruments are useful to establish the levels of risk appetite mentioned above.

Credit Risk – Retail Banking

Retail banking's credit risk management activities are conducted on the basis of a planning process undertaken on a yearly basis. As a result, commercial objectives are agreed upon, the volume of loans to be granted during the year through each one of our lending products (mortgage loans, consumer loans and credit cards). The credit quality of new loans is estimated as a part of this process in light of the sales channels that will be used to grant them and the target market. Projections are calculated of the expected arrears and uncollectability. In line with our commercial objectives, and in view of the projections referred to, the credit risk appetite is established, that is, the limits or tolerance levels using indicators such as the percentage of non-performing loans or the annual loss rate (write-offs for accounting purposes). Our business plan and the risk strategy are generated from this planning process, which includes a day-long meeting with senior management to agree on definitions and another day-long meeting with our directors for their approval.

The terms and conditions of our new loans are governed by our credit policies and score models. Credit policies, which establish the requirements for accessing to loans and credit line assignment criteria, are defined by our retail banking credit risk management division and approved by our risk management committee and our board of directors on an annual basis. The models developed by us or by the market (which are developed by Veraz, Nosis and Visa Argentina) are subject to a validation process defined in a validation policy approved by our board of directors. This policy defines the responsibilities and the criteria to be applied for validating models, so as to maintain a standard in their predictive capabilities.

Loans are granted through a decision engine that contemplates both the scoring model standards and most of the conditions established in our credit policies. This generally ensures an adequate enforcement of the policies set and allows applications to be assessed also pursuant to the analysts' criterion, whether to reject them or approve them by exception. Exceptions are subject to a cap that is set by the credit policy.

Indicators are continuously prepared and reported to monitor the performance of our different loan portfolios and in particular, the quality of the new loans. These indicators are a part of our risk control dashboard, which is prepared by the management control division on a monthly basis, and submitted to our risk management committee and our board of directors at least on a quarterly basis. In addition, a report of the main risk indicators is submitted to senior management on a monthly basis. Such report monitors changes in arrears and in bad debts and contains different breakdowns for the early detection of deviations from the forecasts. Additionally, a series of more specific reports on the quality of credit evaluation are prepared to allow specific divisions within our Bank to monitor both the origination volumes and the breakdown and quality in terms of channels, business, segments and other relevant variables.

Both portfolio maintenance, that primarily refers to the portfolio of credit cards, and arrears management are also regulated through our credit policies and the scoring models referred to above. In connection with the maintenance of the credit card portfolio, the policy mainly regulates the management of credit lines and the access to the products' attributes, for example, cash advances. As concerns delinquency management, the policies regulate the start of the different management stages –early, advanced and judicial arrears– and management means, that is, the regularization instruments (restructurings, principal decreases, etc.) and the actions to control risk or recovery (petitions to the courts for provisional remedies, prohibitions on card use, operational closure, etc.) available at each stage. These processes are monitored by the division using the reports prepared by the different departments.

To manage credit risk properly, i.e., the risk of unexpected losses, methodologies have been developed to periodically conduct stress testing, both comprehensive and individual and the calculation of economic capital. In calculating capital from an economic standpoint, which we conduct on a quarterly basis, we obtain a measure of the risk assumed that is consistent with the measure of the other types of risk and the historical volatility of the default

rate, the exposure that loans normally have at the time of default, and losses in view of the default both in normal and in stress situations. Stress tests, in turn, allow us to estimate by application of predictive models, the impact on the statement of income of a significant deterioration in the level of activity and employment. These two instruments are useful as a criterion to establish the levels of risk appetite mentioned above and to establish contingency plans in the event of stress situations.

Delinquency Management

Our professional delinquency management system is organized into the following three time periods:

- early delinquency management;
- advanced delinquency management; and
- legal/judicial delinquency management.

Our delinquency management system focuses on commercial negotiations undertaken by trained telecollectors and specialized work-out officers. Legal proceedings are only initiated after various types of commercial negotiations have failed, resulting in the loans being considered uncollectible or difficult to normalize.

Early Delinquency Management

Early delinquency management is conducted by the collection area through call centers hired for such purpose. Early delinquency management includes loans that have been delinquent from one to 90 days in the case of unsecured products and up to 180 days in the case of secured loans, and comprises automated actions and specialized telecollector calls.

Advanced Delinquency Management

The advanced delinquency management unit manages cases that are more than 90 days delinquent, with the exception of secured loans. Management is outsourced and conducted through external collection agencies.

Legal/Judicial Delinquency Management

The legal/judicial delinquency management unit takes over cases where loans have been declared uncollectible after conclusion of the advanced delinquency management actions (in the case of unsecured loans) or after 180 days (in the case of secured loans) of negotiations and efforts to reestablish compliance due to debtor unwillingness or insolvency, or where there has been failure to enter into rescheduling or restructuring agreements. The legal/judicial delinquency management unit organizes, directs and supervises delinquency management throughout the entire country from our headquarters in the City of Buenos Aires. This legal/judicial unit includes a network of 130 independent law firms responsible for out-of-court and in-court collections. Such law firms are paid by the delinquent borrowers. Collection management actions end up on foreclosure of the collateral and attachments until full satisfaction of the claim.

Credit Portfolio

The regulations on debt classification are designed to establish clear guidelines for identifying and classifying the quality of assets, as well as evaluating the actual or potential risk of a lender sustaining losses on principal and/or interest, in order to determine, taking into account any loan security, whether the provisions against such contingencies are adequate. Banks must classify their loan portfolios into two different categories: (i) consumer or housing loans and (ii) commercial loans. Consumer and housing loans include personal housing loans (purchase, construction or remodeling), consumer loans, credit-card financings, loans to micro-credit institutions and commercial loans of up to 40% of the amount of the maximum level of annual total sales value for the “Micro” category corresponding to the “Commerce” sector, of the rules on determination of micro, small or medium enterprise status established by SEPYME for credits with or without guarantees, if so decided by the financial institution. All other loans are considered commercial loans, including consumer or housing loans in excess of Ps.2,500,000, the repayment of which is linked to the evolution of the borrower’s productive or commercial activity.

In addition, the Central Bank Accounting Rules establish that if a customer has both kinds of loans (commercial and consumer or housing loans), the consumer or housing loans will be added to the commercial portfolio to determine under which portfolio they should be classified based on the amount indicated. In these cases, the loans secured by preferred guarantees will be considered at 50%.

Under the current debt classification system, each customer, as well as the customer's outstanding debt, is included within one of six sub-categories, as described below. The debt classification criteria applied to the consumer loan portfolio are primarily based on objective factors related to customers' performance on their debt obligations or their legal standing, while the key criteria for classifying the commercial loan portfolio is each borrower's paying ability based on its future cash flow.

Commercial Loans Classification

The principal criteria to evaluate a commercial loan is the borrower's ability to repay it, which is measured by such borrower's future cash flow. Pursuant to Central Bank Accounting Rules, commercial loans are classified as follows:

Classification	Criteria
Normal situation.....	Borrowers that demonstrate their ability to comply with their payment obligations (high repayment capacity).
Subject to special monitoring/Under observation....	Borrowers that, among other criteria, are up to 90 days past due and, although considered to be able to meet all their financial obligations, are sensitive to changes that could compromise their ability to honor debts absent timely corrective measures.
Subject to special monitoring / Under negotiation or subject to refinancing agreement	Borrowers who are unable to comply with their obligations as agreed with the bank and, therefore, formally state, within 60 calendar days after the maturity date, their intention to refinance such debts. The borrower must enter into a refinancing agreement with the bank within 90 calendar days (if up to two lenders are involved) or 180 calendar days (if more than two lenders are involved) after the payment default date. If no agreement has been reached within the established deadline, the borrower must be reclassified to the next category according to the indicators established for each level.
Troubled	Borrowers with difficulties honoring their financial obligations under the loan on a regular basis, which, if uncorrected, may result in losses to the bank.
With high risk of insolvency	Borrowers who are highly unlikely to honor their financial obligations under the loan.
Uncollectible	Loans classified as unrecoverable at the time they are reviewed (although the possibility might exist that such loans might be collected in the future). The borrower will not meet its financial obligations with the financial institution
Uncollectible according to Central Bank Accounting Rules .	(a) Borrower has defaulted on its payment obligations under a loan for more than 180 calendar days according to the corresponding report provided by the Central Bank, which report includes (1) financial institutions liquidated by the Central Bank, (2) residual entities created as a result of the privatization of public financial institutions, or in the privatization or dissolution process, (3) financial institutions whose licenses have been revoked by the Central Bank and find themselves subject to judicial liquidation or bankruptcy proceedings and (4) trusts in which Seguro de Depósitos S.A. (SEDESA) is a beneficiary, or (b) certain kinds of foreign borrowers (including banks or other financial institutions that are not subject to the supervision of the Central Bank or similar authority of the country in which they are incorporated) that are not classified as "investment grade" by any of the rating agencies approved by the Central Bank.

Consumer and Housing Loans Classification

The principal criterion applied to loans in the consumer and housing portfolio is the length of period for which such loans remain overdue. Under the Central Bank Accounting Rules, consumer and housing borrowers are classified as follows:

Classification	Criteria
Normal situation	If all payment obligations are current or less than 31 calendar days overdue and, in the case of checking account overdrafts, less than 61 calendar days overdue.
Low risk	Loans upon which payment obligations are overdue for a period of more than 31 and up to 90 calendar days.
Medium risk	Loans upon which payment obligations are overdue for a period of more than 90 and up to 180 calendar days.
High risk.....	Loans in respect of which a legal action seeking collection has been filed or loans having payment obligations overdue for more than 180 calendar days, but less than 365 calendar days.
Uncollectible	Loans in which payment obligations are more than one year overdue or the debtor is insolvent or in bankruptcy or liquidation.
Uncollectible according to Central Bank Accounting Rules.....	Same criteria as for commercial loans in “Uncollectible” status according to Central Bank Accounting Rules.

Minimum Credit Provisions

The following minimum credit provisions are required to be made by Argentine banks in relation to the credit portfolio category:

Category	With Preferred Guarantees	Without Preferred Guarantees
“Normal situation”	1%	1%
“Under observation” and “Low risk”	3%	5%
“Under negotiation or subject to refinancing agreements”	6%	12%
“Troubled” and “Medium risk”	12%	25%
“With high risk of insolvency” and “High risk”	25%	50%
“Uncollectible”	50%	100%
“Uncollectible according to Central Bank Accounting Rules”.....	100%	100%

The Financial Superintendency may require additional provisioning if it determines that the current provisioning level is inadequate.

Financial institutions are entitled to record allowances for loan losses in amounts larger than those required by the Central Bank Accounting Rules. In such cases and despite the existence of certain exceptions, recording a larger allowance for a commercial loan, to the extent the recorded allowance amount falls into the next credit portfolio category set forth by the Central Bank Accounting Rules, shall automatically result in the corresponding debtor being re-categorized accordingly.

Minimum Frequency for Classification Review

In accordance with Central Bank Accounting Rules, financial institutions are required to develop procedures for the analysis of credit facilities. Such procedures assure an appropriate evaluation of a debtor’s financial situation and a periodic revision of its situation concerning objective and subjective conditions of all the risks taken. These procedures are to be detailed in a manual called the “Manual of Procedures for Classification and Allowances,” which shall be permanently accessible to the Financial Superintendency for review. Financial

institutions must classify loans at least once a year pursuant to the Central Bank Accounting Rules. However, we perform a quarterly review for loans that equal to or exceed 5% of the financial institution's RPC and a semi-annual review for credits that exceed the lesser of (i) Ps.2 million and (ii) credits that oscillate between 1% and 5% of the financial institution's RPC.

In the case of commercial loans, applicable regulations require that the review of the portfolio occur: (i) quarterly for clients with indebtedness equal or greater than 5% of the financial entity's RPC for the prior month and (ii) semi-annually for clients whose indebtedness is (x) greater than the lower of 1% of the financial entity's RPC for the prior month and Ps.4 million, and (y) lesser than 5% of the financial entity's RPC for the prior month. At the end of the first half of the year, the total review under (i) and (ii) above should have covered no less than 50% of the financial entity's commercial loan portfolio and, if less, it shall be completed by incorporating clients (in descending order) whose total indebtedness is lower than the limits described in (ii)(x) above.

In addition, financial institutions must review the rating assigned to a debtor in certain instances, such as when another financial institution reduces the debtor classification in the "Credit Information Database" and grants 10% or more of the debtor's total financing in the financial system. Only one-level discrepancy is allowed in relation to the information submitted by financial institutions to the "Credit Information Database" and the lower classification awarded by at least two other banks and total lending from such banks account for 40% or more of the total informed; if there is a greater discrepancy, the financial institution will be required to reclassify the debtor.

Allowances for Loan Losses

The allowance for loan losses is maintained in accordance with applicable regulatory requirements of the Central Bank. Increases in the allowance are based on the level of growth of the loan portfolio, as well as on the deterioration of the quality of existing loans, while decreases in the allowance are based on regulations requiring the write-off of non-performing loans classified as irrecoverable after a certain period of time and on decisions of the management to write off non-performing loans evidencing a very low probability of recovery.

Classification of Loan Portfolio

The following tables set forth the classification of our loans, as of the dates indicated based on the classification categories required by the Central Bank. The amounts shown include both current principal balance and accrued interest receivable, as required by the Central Bank.

	As of December 31, 2016								Total
	Consumer				Commercial				
	Mortgage loans	Personal loans	Credit Cards	Other individuals	Construction	Short-Term Corporate Loans	Other commercials	Public Sector	
	(in thousands of pesos, except for percentages)								
Normal	1,729,473	4,154,664	12,182,155	193,040	267,688	5,654,907	605,690	153,032	26,940,649
Potential risk and inadequate performance.....	22,300	180,714	258,520	14,902	—	387	—	—	476,823
Problematic and deficient performance.....	5,136	91,209	173,680	6,264	—	992	—	—	277,281
High risk of insolvency and difficult collection	8,127	85,843	293,434	4,801	—	5,090	—	—	397,295
Uncollectible	5,640	2,063	241	4,379	—	16,805	127	—	29,255
Uncollectible for technical reasons.....	94	99	66	1	—	—	—	—	260
Total.....	1,770,770	4,514,592	12,908,097	223,387	267,688	5,678,181	605,817	153,032	28,121,564
Non-performing loans ⁽¹⁾	18,997	179,214	467,421	15,445	—	22,887	127	—	704,091
Non-performing loans / total loans	1.07%	3.97%	3.62%	9.17%	—	0.40%	—	—	2.50%
Allocation of the reserve for loan losses	55,227	118,363	394,233	340	2,677	75,847	32,376	—	679,063
Reserve for loan losses / non-performing loans.....	290.71%	66.05%	84.34%	2.20%	NA	331.40%	NA	—	96.45%

(1) Non-performing loans includes all loans to borrowers classified as "Medium Risk," "Problem," "High Risk," "High Risk of Insolvency," "Irrecoverable" and "Irrecoverable for Technical Decision" under the Central Bank loan classification system. Non-performing loans also include all loans contractually past due 90 days or more.

As of December 31, 2015									
	Consumer				Commercial				Total
	Mortgage loans	Personal loans	Credit cards	Other individuals	Construction	Short-Term Corporate Loans	Other commercials	Public Sector	
(in thousands of pesos, except for percentages)									
Normal	1,663,338	2,717,740	9,539,361	129,867	274,858	4,933,287	929,017	46,999	20,234,467
Potential risk and inadequate performance	21,083	124,778	167,509	7,824	—	170	1,040	—	322,404
Problematic and deficient performance	4,924	58,518	96,077	2,148	—	270	—	—	161,937
High risk of insolvency and difficult collection	6,505	65,397	132,902	2,116	—	3,125	—	—	210,045
Uncollectible	8,159	3,116	581	1,162	556	42,709	206	—	56,489
Uncollectible for technical reasons	141	73	68	—	—	—	—	—	282
Total	1,704,150	2,969,622	9,936,498	143,117	275,414	4,979,561	930,263	46,999	20,985,624
Non-performing loans ⁽¹⁾	19,729	127,104	229,629	5,426	556	46,104	206	—	428,754
Non-performing loans / total loans	1.16%	4.28%	2.31%	3.79%	0.20%	0.93%	0.02%	—	2.04%
Allocation of the reserve for loan losses	57,655	83,861	208,649	291	3,305	85,858	15,341	—	454,960
Reserve for loan losses / non-performing loans	292.23%	65.98%	90.86%	5.36%	594.42%	186.23%	NM ⁽²⁾	—	106.11%

(1) Non-performing loans includes all loans to borrowers classified as “Medium Risk,” “Problem,” “High Risk,” “High Risk of Insolvency,” “Irrecoverable” and “Irrecoverable for Technical Decision” under the Central Bank loan classification system. Non-performing loans also include all loans contractually past due 90 days or more.

(2) Not meaningful.

As of December 31, 2014									
	Consumer				Commercial				Total
	Mortgage loans	Personal loans	Credit cards	Other individuals	Construction	Short-Term Corporate Loans	Other commercials	Public Sector	
(in thousands of pesos, except for percentages)									
Normal	1,676,972	2,114,976	6,810,527	89,985	184,027	4,983,008	1,314,208	112,131	17,285,834
Potential risk and inadequate performance	21,269	79,144	116,917	22,449	—	1,056	589	—	241,424
Problematic and deficient performance	5,796	36,071	82,337	21,382	—	441	—	—	146,027
High risk of insolvency and difficult collection	8,365	52,574	146,807	19,948	—	21,266	—	—	248,960
Uncollectible	9,726	352	312	2,111	470	17,897	—	—	30,868
Uncollectible for technical reasons	164	47	6	—	—	—	—	—	217
Total	1,722,292	2,283,164	7,156,906	155,875	184,497	5,023,668	1,314,797	112,131	17,953,330
Non-performing loans ⁽¹⁾	24,051	89,044	229,462	43,441	470	39,604	—	—	426,072
Non-performing loans / total loans	1.40%	3.90%	3.21%	27.87%	0.25%	0.79%	0.00%	0.00%	2.37%
Allocation of the reserve for loan losses	62,403	60,759	180,857	19,438	2,310	70,705	14,084	—	410,556
Reserve for loan losses / non-performing loans	259.46%	68.23%	78.82%	44.75%	491.49%	178.53%	—	—	96.36%

(1) Non-performing loans includes all loans to borrowers classified as “Medium Risk,” “Problem,” “High Risk,” “High Risk of Insolvency,” “Irrecoverable” and “Irrecoverable for Technical Decision” under the Central Bank loan classification system. Non-performing loans also include all loans contractually past due 90 days or more.

Non-Performing Loan Portfolio

The following table sets forth information regarding non-performing loans as of the dates indicated:

	At December 31,					
	2014		2015		2016	
	(in thousands of pesos, except for percentages)					
Non-performing loans						
Mortgage loans	24,051	5.6%	19,729	4.6%	18,997	2.7%
Personals loans.....	89,044	20.9%	127,104	29.6%	—	—
Credit Cards loans.....	229,462	53.9%	229,629	53.6%	22,887	3.3%
Overdraft.....	997	0.2%	362	0.1%	127	—
Public sector.....	—	—	—	—	—	—
Other Loans	42,444	10.0%	5,064	1.2%	179,214	25.5%
Commercial loans - construccion projects...	470	0.1%	556	0.1%	467,421	66.4%
Commercial loans - short-term loans to corporations.....	39,604	9.3%	46,104	10.8%	15,445	2.2%
Commercial loans - Others loans	—	—	206	—	—	—
Total non-performing loans	426,072	100.0%	428,754	100.0%	704,091	100.0%
Reserve for loan losses.....	410,556	—	454,960	—	679,063	—
Reserve for loan losses as a percentage of non-performing loans	96.4%		106.1%		96.5%	
Non-performing loans as a percentage of total loan portfolio.....	2.4%		2.0%		2.5%	

- (1) Non-performing loans include all loans to borrowers classified as “Medium Risk,” “High Risk,” “Uncollectible,” “Uncollectible According to Central Bank Accounting Rules,” “Subject to Special Monitoring/Under Negotiation or subject to Refinancing Agreement,” “Troubled” and “With High Risk of Insolvency,” under the Central Bank loan classification system. Non-performing loans also include all loans contractually past due 90 days or more.

The table below sets forth non-performing loans by economic activity as of each of the dates indicated:

	As of December 31,					
	2014		2015		2016	
	Amount	% of total loans	Amount	% of total loans	Amount	% of total loans
	(in millions of pesos, except percentages)					
Consumer	385,997	90.6%	380,678	88.8%	681,077	96.7%
Industry and mining.....	31,660	7.4%	32,530	7.6%	16,367	2.3%
Wholesale trade	409	0.1%	10,257	2.4%	3,607	0.5%
Services	4,902	1.2%	2,321	0.5%	951	0.1%
Agricultural	2,015	0.5%	2,166	0.5%	1,927	0.3%
Construction	978	0.2%	4	0.0%	152	—
Others.....	111	0.0%	798	0.2%	11	—
Total loans.....	426,072	100.0%	428,754	100.0%	704,091	100.00%

Analysis of Allowance for Loan Losses

The following table sets forth our allowance for loan losses for the periods indicated.

	At December 31,		
	2014	2015	2016
	(in thousands of pesos)		
Reserve at beginning of period.....	312,082	410,556	452,022
Provisions charged to income.....	348,949	347,621	517,137
Provisions charged to shareholders' equity	—	—	—
Prior reserve reversed (1)	—	—	—
Subtotal	661,031	758,177	969,159
Charge-offs:			
Pre-Restructuring loans - individual mortgages	(5,180)	(568)	(1,116)
Post-Restructuring loans - individual mortgages.....	(6,241)	(3,940)	(2,412)
Personal loans.....	(59,348)	(86,264)	(86,957)
Credit cards	(83,374)	(120,592)	(121,926)

	At December 31,		
	2014	2015	2016
	(in thousands of pesos)		
Credit card TS	(94,572)	(92,645)	(77,212)
Advance	(536)	(1,079)	(473)
Other	—	—	—
Commercial	(1,224)	(1,067)	—
Total charge-offs	(250,475)	(306,155)	(290,096)
Monetary results	—	—	—
Reserve at end of period	410,556	452,022	679,063
Net charge to income statement	348,949	347,621	517,137

Charge-Off Policy

Our charge-off policy conforms to regulations established by the Central Bank. Under the Central Bank Accounting Rules, a mortgage loan must be classified as “uncollectible” after being in arrears in excess of one year. At such point, the loan must be 50% reserved provided it has a preferred guarantee. After being classified as “uncollectible” for one year, the loan must be 100% provisioned. The Central Bank requires that loans generally be charged off in the seventh month after becoming fully provisioned in the “uncollectible” category (*i.e.*, 31 months after the loan initially goes into arrears).

Additionally, we charge-off construction project loans to reduce the outstanding principal balance to the value of the underlying property. We evaluate those charge-offs on a case-by-case basis upon completion of the construction project, and in general, charge-offs occur when the completed project is appraised.

Allocation of Reserve for Loan Losses

The following tables set forth information with respect to the allocation of the reserve for loan losses among types of loans as of the dates indicated:

	As of December 31,											
	2014				2015				2016			
	Reserve	Reserve/ Loans in Category	Reserve/ Total Loans	Loan in Category/ Total Loans	Reserve	Reserve/ Loans in Category	Reserve/ Total Loans	Loan in Category/ Total Loans	Reserve	Reserve/ Loans in Category	Reserve/ Total Loans	Loan in Category/ Total Loans
	(in thousands of pesos, except for percentages)											
Mortgage loans.....	62,403	3.6%	0.3%	9.6%	57,655	3.4%	0.3%	8.1%	55,227	3.1%	0.2%	6.3%
Personal loans	60,759	2.7%	0.3%	12.7%	83,861	2.8%	0.4%	14.2%	118,363	2.6%	0.4%	16.1%
Credit cards and Advances.....	180,857	2.5%	1.0%	39.9%	208,649	2.1%	1.0%	47.3%	394,233	3.1%	1.4%	45.9%
Overdraft facilities	19,438	12.5%	0.1%	0.9%	291	0.2%	—	0.7%	340	0.2%	—	0.6%
Commercial												
Construction loans.....	2,310	1.3%	—	1.0%	3,305	1.2%	—	1.3%	2,677	1.0%	—	1.0%
Short term corporate loans.....	70,705	1.4%	0.4%	28.0%	85,858	1.7%	0.4%	23.7%	75,847	1.3%	0.3%	20.2%
Other commercial loans.....	14,084	1.1%	0.1%	7.3%	15,341	0.1%	—	4.5%	32,376	1.2%	0.1%	9.5%
Public sector loans	—	—	—	0.6%	—	—	—	0.2%	—	—	—	0.5%
Total reserve for loan losses.....	410,556			100.0%	454,960			100.0%	679,063			100.0%

Composition of Deposits

The following table sets forth the composition of our deposits as of the dates indicated:

	For the Years Ended as of December 31,					
	2014		2015		2016	
	Average balance	Average nominal rate (%)	Average balance	Average nominal rate (%)	Average balance	Average nominal rate (%)
	(in thousands of pesos, except for percentages)					
Non-interest-bearing deposits						
Pesos	2,454,073	—	3,017,124	—	3,300,449	—
U.S. dollars	58,387	—	71,192	—	121,562	—
Total	2,512,460		3,088,316		3,422,011	
Saving accounts						
Pesos	1,100,302	0.18%	1,719,629	0.17%	1,705,827	0.18%
U.S. dollars	74,901	0.07%	119,172	0.06%	269,404	0.06%
Total	1,175,203	0.17%	1,838,801	0.16%	1,975,231	0.16%
Checking accounts						
Pesos	1,035,083	—	1,467,849	—	131,806	—
U.S. dollars	—	—	—	—	—	—
Total	1,035,083	—	1,467,849	—	131,806	—
Time deposits						
Pesos	8,413,502	19.62%	11,625,856	19.76%	13,709,320	24.09%
U.S. dollars	707,841	1.00%	492,382	0.67%	2,168,920	1.71%
Total	9,121,343	18.18%	12,118,238	18.98%	15,878,240	21.03%
Total average deposits	13,844,089		18,513,204		21,407,288	

Maturity of Deposits

The following tables set forth the maturities of our deposits at the dates indicated.

	As of December 31, 2016					
	Within 1 month	Over 1 and up to 3 months	Over 3 and up to 6 months	Over 6 and up to 12 months	After 12 months	Total
	(in thousands of pesos)					
Time deposits	7,817,948	3,951,475	1,877,213	144,886	27,893	13,819,415
Saving deposits	3,611,713	—	—	—	—	3,611,713
Checking accounts	1,362,218	—	—	—	—	1,362,218
Other deposits	191,646	—	—	—	—	191,646
Total	12,983,525	3,951,475	1,877,213	144,886	27,893	18,984,992

Maturity of Time Deposits of Ps.100,000 or more

	As of December 31, 2016					
	Within 1 month	Over 1 and up to 3 months	Over 3 and up to 6 months	Over 6 and up to 12 months	After 12 months	Total
	(in thousands of pesos)					
Time deposits of Ps.100,000 or more	5,621,660	3,505,259	1,831,908	132,551	26,255	11,117,633
Total	5,621,660	3,505,259	1,831,908	132,551	26,255	11,117,633

Short-Term Borrowings

The following table shows the breakdown of our short-term borrowings as of the periods indicated.

	As of the Year Ended December 31,		
	2014	2015	2016
	(in thousands of pesos, except percentages)		
Deposits			
Average balances of the period	13,844,756	22,426,561	22,393,329
Maximum balance recorded at monthly closing dates..	18,204,808	18,513,793	21,407,288
Weighted-average interest rate for the period	16.12%	16.50%	18.59%
Bonds			
Average balances of the period	937,148	4,298,482	8,632,914
Maximum balance recorded at monthly closing dates..	1,843,991	3,179,563	9,510,886
Weighted-average interest rate for the period	16.42%	18.03%	20.77%
Other banks and international entities			
Average balances of the period	391,094	648,757	844,558
Maximum balance recorded at monthly closing dates..	558,448	344,137	596,075
Weighted-average interest rate for the period	28.46%	42.55%	31.11%

(*) Interest is excluded.

Minimum Capital Requirements

The following table sets forth our minimum capital requirements set by the Central Bank as of the dates indicated:

	As of December 31,			As of June 30,
	2014	2015	2016	2017
	(in thousands of pesos, except percentages)			
Credit risk	1,615,867	2,111,550	2,741,643	3,155,331
Market risk	90,919	115,424	399,135	453,349
Operational risk	399,980	545,339	698,817	786,512
Other	—	—	—	—
Required minimum capital under Central Bank				
Accounting Rules	2,106,766	2,772,313	3,839,595	4,395,192
Ordinary capital level 1	4,441,535	5,264,169	6,134,433	6,692,122
Deductible items level 1	(342,014)	(527,915)	(575,576)	(585,524)
Additional capital level 1	—	—	—	20,248
Capital level 2	167,539	296,794	359,236	310,528
Additional capital level 2	—	—	—	—
Deductible items level 2	—	(2,065)	—	—
Total capital under Central Bank Accounting				
Rules	4,267,060	5,030,983	5,918,093	6,437,374
Excess capital	2,160,294	2,258,670	2,078,498	2,042,182
Excess capital / required capital	102.54%	81.47%	54.13%	46.46%

MANAGEMENT

Board of Directors

We are managed by a board of directors. The members of our board of directors are elected for two-year terms at our annual meeting of shareholders, and may be reelected indefinitely. The directors are in charge of our administration. The Executive Committee, which conducts our ordinary business, is supervised by the board of directors. The board of directors is composed of:

- two members and their respective alternates representing Class A shares;
- one member and its respective alternate representing Class B shares;
- one member and its respective alternate representing Class C shares; and
- nine members and their respective alternates representing Class D shares.

Duties and Liabilities of Directors

Under Argentine law, directors have an obligation to perform their duties with the loyalty and the diligence of a prudent business person. Directors are jointly and severally liable to us, shareholders and third parties for the improper performance of their duties, for violating the law, our bylaws or rules and procedures issued, if any, and for any damage caused by fraud, abuse of authority or gross negligence. The Capital Markets Law has established certain obligations in connection with a director's duty of loyalty in listed companies. The following are considered integral to a director's duty of loyalty: (i) the prohibition from using corporate assets and confidential information for personal purposes; (ii) the prohibition of taking advantage, or allowing another one to take advantage, by action or omission, of their company's business opportunities; (iii) the obligation to exercise board powers only for the purposes for which the law, the bylaws or the meeting or the board of directors have intended; and (iv) the obligation to take strict care so that board acts never act, directly or indirectly, against the company's interests. In case of doubt with respect to a director's fulfillment of his or her duty of loyalty, the director shall have the burden of proof. Under Argentine law, specific duties may be assigned to a director by the bylaws or by a resolution at a shareholders' meeting. In such cases, a director's liability will be determined with reference to the performance of such duties; *provided* that certain technical requirements are met. Argentine law prohibits directors from engaging in activities in competition with us without express shareholder authorization. A director must inform the board of directors of any conflict of interest he may have in a proposed transaction and must abstain from voting thereon.

A director will not be liable if, notwithstanding his presence at the meeting at which a resolution was adopted or his knowledge of such resolution, a written record exists of his opposition thereto and he reports his opposition to the Supervisory Committee before any complaint against him is brought to the board of directors, the Supervisory Committee, a shareholders' meeting, a competent governmental agency or the courts. Except in the event of our mandatory liquidation or bankruptcy, the shareholders' approval of a director's performance terminates any liability of a director with respect to us; *provided* that shareholders holding at least 5.0% of our capital stock do not object and provided further that such liability does not result from a violation of the law or our bylaws.

We may initiate causes of action against directors upon a majority vote of the shareholders. If we have not initiated a cause of action within three months of a shareholders' resolution approving its initiation, any shareholder may start the action on our behalf and for our account.

Pursuant to our bylaws, we will indemnify all current and former directors, members of the Supervisory Committee, and executive and senior management against any liabilities incurred by any such person in connection with the defense of any issue, lawsuit or procedure in which they may be involved as a result of the public offering, placement and trading of our shares. This indemnification shall include payment of any amounts mandated by a court's judgment covered by our insurance policies, except where a director, member of the Supervisory Committee, manager, former director, former syndic or former manager acted with fraud or gross negligence. We may obtain directors' and management's liability insurance with respect to such losses, in which case the indemnity will be limited to liabilities in excess of, or not otherwise covered by, such insurance.

The following table shows the current members of our board of directors:

Name	Position	Director since	Class	Expiration of Term	Date of birth
Eduardo Sergio Elsztain	Chairman	1999	D	12/31/2017	26/01/1960
Mario Blejer	Vice Chairman	2010	D	12/31/2018	11/06/1948
Francisco Guillermo Susmel ^(*)	Director	2017	A	12/31/2018	10/02/1958
Juan Rubén Jure ^(*)	Director	2017	A	12/31/2018	26/04/1968
Fernando Recalde	Director	2016	B	12/31/2017	04/07/1964
Martín Juan Lanfranco ^(**)	Director	2017	C	12/31/2017	04/05/1966
Mauricio Elías Wior	Director	2008	D	12/31/2017	23/10/1956
Saúl Zang.....	Director	1999	D	12/31/2017	30/12/1945
Ernesto Manuel Viñes	Director	2002	D	12/31/2018	05/02/1944
Gabriel Adolfo Gregorio Reznik	Director	2002	D	12/31/2018	18/11/1958
Jacobo Julio Dreizen.....	Director	2004	D	12/31/2018	13/10/1955
Pablo Daniel Vergara del Carril	Director	2002	D	12/31/2017	03/10/1965
Carlos Bernardo Pisula	Director	2003	D	12/31/2017	16/12/1948
Claudio Anibal Ersinger	Alternate Director	2016	A	12/31/2018	15/01/1963
Francisco Jose Fares.....	Alternate Director	2016	A	12/31/2018	21/02/1964
Gabriel Quintela	Alternate Director	2016	B	12/31/2017	24/01/1966
Sandra Alonso	Alternate Director	2016	C	12/31/2017	22/03/1967
Gustavo Daniel Efkhanian.....	Alternate Director	2000	D	12/31/2017	28/10/1964
Daniel Ricardo Elsztain.....	Alternate Director	2008	D	12/31/2017	22/12/1972
Andrés Fabián Ocampo	Alternate Director	2008	D	12/31/2018	09/11/1956
Mario César Parrado.....	Alternate Director	2009	D	12/31/2017	11/04/1959
Federico León Bensadón	Alternate Director	2002	D	12/31/2017	17/01/1933
Vacant ^(***)	Alternate Director		D		
Vacant ^(***)	Alternate Director		D		
Vacant ^(***)	Alternate Director		D		
Vacant ^(***)	Alternate Director		D		

(*) Appointed on April 4, 2017 by the Argentine government, in use of the powers conferred by section 24 subsection d) of the bylaws of Banco Hipotecario S.A. An appointment is pending approval by the Central Bank, in accordance with Communication “A” 4490.

(**) Director for Class “C” appointed on April 28, 2017. An appointment is pending approval by the Central Bank, in accordance with Communication “A” 4490.

(***) On April 4, 2017, at the annual meeting, the Class “A,” “B,” “C” and “D” shareholders decided to postpone the appointment of the remaining alternate directors.

Below are summary biographies of our directors and alternate directors:

Eduardo Sergio Elsztain. Mr. Elsztain studied economics at the Universidad de Buenos Aires. Mr. Elsztain currently serves as our chairman and as chairman of IRSA Inversiones y Representaciones Sociedad Anónima, IRSA Propiedades Comerciales S.A., Cresud S.A.C.I.F. y A., Tarshop, BACS, IDBD Development Corporation LTD and Brasilagro Compañía de Propiedades Agrícolas, among other companies. He is also Chairman of Fundación IRSA, which promotes the education and development of young professionals through its Puerta 18 Program, Museo de los Niños Abasto and Alto Rosario. Mr. Elsztain is also a member of the Global Consulting Committee of Endeavor, which promotes the development of high-impact entrepreneurs.

Mario Blejer. Mr. Blejer obtained a PhD in economics from the University of Chicago. From 1980 to 2001, he served as a senior consultant to the IMF in its European and Asia Departments. Mr. Blejer served as vice chairman and chairman of the Central Bank between 2001 and 2002. From 2003 to 2008, Mr. Blejer served as director of the Center for Central Banking Studies of the Bank of England and as Advisor to the Governor of the Bank of England. Mr. Blejer is currently director of IRSA Inversiones y Representaciones Sociedad Anónima, among other companies. He was also an external advisor to the Monetary Policy Board of the Central Bank of Mauritius and is professor of post-graduate courses at Universidad Torcuato Di Tella.

Francisco Guillermo Susmel. Mr. Susmel has a law degree from the University of Buenos Aires and an LL.M. from Harvard Law School. He was Vice-President of the CNV until 1996 and Undersecretary of Banks and Insurance at the Ministry of Economy and Public Works and Services. He served as a consultant for the Inter-American Development Bank and the Central American Bank for Economic Integration. In 1997, he was named Executive Vice President, General Manager and Director of Banco Hipotecario a role he held until 2000. Between 2002 and 2003 he was Vice Chairman of the Board of Directors of all companies in the CTI Holdings S.A. From 2003 until 2011, he was president of the Board of Rio Bravo Inversiones S.A.

Juan Rubén Jure. Mr. Jure served in the private sector as head of the Advertising and Design Agency “J & S” until 2000. He was Undersecretary of Communication of the Municipality of Rio Cuarto from 1998 to 2000. He was a member of the Deliberative Council of the city of Rio Cuarto between 2000 and 2004 and was its President until 2008. He was elected Municipal Intendant of the City of Rio Cuarto in 2008 and reelected for the following period until 2016.

Fernando Recalde. Mr. Recalde obtained a finance and business administration degree from Union County College in Cranford, NJ, in 1992. He served as Credit Officer and Treasury Analyst at Banco de Bogotá Trust Co in New York between 1987 and 1992. He was an Analyst, Vice President and Director in the areas of Capital Markets, Trading and Distribution at Merrill Lynch New York and Buenos Aires from 1992 until 2012, when he retired as President of its subsidiary in Argentina, having served in different functions in the areas of Fixed and Variable Income. He was also a Director at MAE and acted as head of Merrill Lynch before Rofex and Director of Merrill Lynch Securities. From 2012 until 2015 he was Portfolio Manager and member of the Investment Committee of Galileo, SGFCI and then in Cima, SGFCI, where he acted as Director until assuming as General Director of Investments in the Sustainability Guarantee Fund of ANSES where he remains as an advisor.

Martín Juan Lanfranco. Mr. Lanfranco obtained a law degree from Universidad de Buenos Aires and pursued postgraduate studies in the Master in Business Law at the Universidad Austral. He is partner of Lanfranco & Detry Law Firm. Between 2003 and 2004, he was advisor to the Chairman of the Argentine Central Bank; between 2008 and 2010, he served as director of Corporación Antiguo Puerto Madero S.A. and later, between 2014 and 2016, he was appointed as statutory auditor. He was National Director of Companies with Estate Participation from 2016 until he was appointed as director of Banco Hipotecario.

Mauricio Elías Wior. Mr. Wior obtained a bachelor’s degree in economics, management and accounting from Tel Aviv University in Israel and a master’s degree in business administration from the same university. Mr. Wior served as President of Movicom and as regional Vice President for the Latin America for Bellsouth until 2005. Mr. Wior is a director of IRSA Inversiones y Representaciones Sociedad Anónima and TGLT S.A.

Saúl Zang. Mr. Zang obtained a law degree from Universidad de Buenos Aires. He is a member of the International Bar Association and the Interamerican Federation of Lawyers. He is a founding partner of Zang, Bergel & Viñes Abogados. He is also Vice Chairman of IRSA Inversiones y Representaciones Sociedad Anónima, IRSA Propiedades Comerciales S.A., Puerto Retiro and Fibesa, and first Vice Chairman of Cresud S.A.C.I.F. y A., among other companies. Mr. Zang is also a member of the board of directors of Nuevas Fronteras S.A., Tarshop, BACS, IDBD Development Corporation Ltd. and BrasilAgro Companhia Brasileira de Propriedades Agrícolas, among other companies.

Ernesto Manuel Viñes. Mr. Viñes obtained a law degree from Universidad de Buenos Aires where he also took post-graduate courses. He has been a court officer and Subsecretary of State. Mr. Viñes currently serves as our legal manager. He was a founding partner of Zang, Bergel & Viñes Abogados.

Gabriel Adolfo Gregorio Reznik. Mr. Reznik obtained a degree in civil engineering from Universidad de Buenos Aires and a master’s degree in administration of real estate and construction businesses from Escuela Politécnica de Madrid, Spain. Mr. Reznik has been a director since June 2002. He has served as Director and Manager of the Technical Department of IRSA Inversiones y Representaciones Sociedad Anónima and as Director of Emprendimiento Recoleta S.A. He currently serves as a director of Cresud S.A.C.I.F. y A. and IRSA Inversiones y Representaciones Sociedad Anónima. Mr. Reznik has been responsible for and in control of the execution of engineering projects for IRSA Inversiones y Representaciones Sociedad Anónima and IRSA Propiedades Comerciales S.A., and for the Office Building Operation and Maintenance areas.

Jacobo Julio Dreizzen. Mr. Dreizzen obtained a degree in economics from Universidad de Buenos Aires and a master’s degree in economics from the Catholic University of Río de Janeiro. In 1986, he was Deputy Executive Director of the IMF. In 1987, Mr. Dreizzen acted as advisor to the Presidency of the Central Bank and in

the period from 1987 to 1989, he was a director of that institution. From 1990 to 1999 he served as Executive Director of Galicia Capital Markets, subsidiary of the Investment Banking Division of Banco de Galicia. From 2000 to 2001, Mr. Dreizzen was Undersecretary of Finance for the Ministry of Economy. He served as a consultant to the IADB (2002), UNDP (2005) and CAF (2005). From 2002 to 2005 he was President of Constellation, an investment trust. He was IMPSA S.A.'s CFO from 2006 to 2016. Mr. Dreizzen has been professor of Corporate Finance at the Universidad de Buenos Aires Capital Markets Graduate Program since 1993 and a master's in finance from Universidad Torcuato Di Tella since 2015.

Pablo Daniel Vergara del Carril. Mr. Vergara del Carril obtained a law degree from the Universidad Católica de Buenos Aires where he teaches Commercial Law and Contract Law. He also teaches Corporate Law, Contracts and Capital Markets in post-graduate courses. Mr. Vergara del Carril is a member of the Legal Advisory Committee of the Argentine Chamber of Corporations (*Cámara de Sociedades Anónimas*) as well as Vice President of the Competition Law Committee of the Colegio de Abogados de la Ciudad Autónoma de Buenos Aires. He is a director of Emprendimiento Recoleta S.A. and Nuevas Fronteras S.A. and an alternate director of IRSA Propiedades Comerciales S.A. He is a partner at Zang, Bergel & Viñes Abogados.

Carlos Bernardo Písula. Mr. Písula obtained a degree in accounting from Universidad de Buenos Aires in 1973, where he subsequently completed various professional development and specialization courses. Mr. Písula is member of our board of directors, representing Class D shares. He is Chairman of our Audit Committee and member of our Credit Risk Committee. Mr. Písula takes part in different commissions of the Cámara Argentina de la Construcción and the Instituto de Estadística y Registro de la Industria de la Construcción (IERIC) as member of the Executive Committee. He is also a board member of various private construction and real estate companies.

Claudio Anibal Ersinger. Mr. Ersinger obtained a degree in veterinary medicine from the Universidad Nacional del Centro and has extensive experience in farm management. He has served as a member of the Honorable Deliberative Council of Tandil of the Municipal Commission for Territorial Management since 2009 and as Chairman of the Council since 2013.

Francisco Jose Fares. Mr. Fares is engaged in private activity related to trade and it has an extensive political career, including serving as advisor to the President of the Senate of the Province of Buenos Aires and as Secretary of Tourism and Production for the Municipality of Chascomús between 2011 and 2015.

Gabriel Quintela. Mr. Quintela obtained a degree in economics with a specialization in finance from the University of Buenos Aires and is a certified public accountant. Since 2008, Mr. Quintela has served as coordinator of the portfolio valuation of the Fondo de Garantía de Sustentabilidad.

Sandra Alonso. Ms. Alonso obtained a degree in business administration from the Universidad Nacional del Centro and is engaged in agricultural administration. Ms. Alonso was regional supervisor of Claro Argentina until 2015, where she gained experience in customer service.

Gustavo Daniel Efkhanián. Mr. Efkhanián obtained a bachelor degree in economics from the National University of Cordoba. In 2005, he obtained a master in business administration from Universidad Torcuato di Tella. Mr. Efkhanián served as our executive director from 1997 to 1999; he has been member of our board of directors since 1993 and has held various positions at the Bank since 1991. Mr. Efkhanián supervises corporate business-related issues. He had formerly served as a government-appointed advisor to the Bank in connection with the 1989-1993 Restructuring. Mr. Efkhanián has also served as an alternate Director of Banco de Inversión y Comercio Exterior S.A. (BICE). From 1988 to 1991, he was an economist for the *Instituto de Estudios Económicos de la Realidad Argentina y Latinoamericana* (IEERAL). He currently serves as alternate Director and Manager of the Bank's Risk and Controlling division.

Daniel Ricardo Elsztain. Mr. Elsztain obtained a bachelor degree in economics from Universidad Torcuato Di Tella and a Master's degree in Business Administration from the IAE. He currently serves as Chief Operating Officer of IRSA Inversiones y Representaciones Sociedad Anónima, and as Director at IRSA Propiedades Comerciales S.A., IRSA Inversiones y Representaciones Sociedad Anónima and Supertel Hospitality Inc., among other companies. Mr. Elsztain is the brother of our Chairman Eduardo S. Elsztain.

Andrés Fabián Ocampo. Mr. Ocampo obtained a law degree from the School of Law and Political Sciences of Universidad Católica Argentina. He completed post-graduate studies at the Instituto de Altos Estudios Empresariales of Universidad Austral under the Senior Management Program and in Operating Finance, and in Banking Law at Universidad Argentina de la Empresa.

Mario César Parrado. Mr. Parrado obtained a degree in business administration from Universidad Argentina de la Empresa. He has more than twenty years of experience in finance, having served as President of The Boston Investment Group, Director of BankBoston Argentina and Director of Fleet International Advisors S.A.

Federico León Bensadón. Mr. Bensadon graduated as civil engineer from Universidad de Buenos Aires in 1957. He was a Class C Director of the Bank from September 2002 until March 2012, and since then he has been an Alternate Director. He is a member of the board of directors of Telematrix S.A. (Costa Salguero), Emaco S.A., Edilcenter S.A., Rafoy S.A., and DR S.A., among other companies. He is also Treasurer of the *Cámara Argentina de la Construcción*.

The following table sets forth the number of our shares held by our directors as of June 30, 2017.

Director	Number of Shares	Class
Eduardo Sergio Elsztain	5,000	D
Pablo Vergara del Carril.....	27,000	D
Andrés Ocampo.....	100	D

Employment Contracts with Directors

We have entered into employment contracts with one of our directors, Ernesto Manuel Viñes, who performs executive and/or administrative functions and therefore is considered to be our employee.

Executive Committee

Section 19 of our bylaws provides for the operation of an Executive Committee. The Executive Committee’s general purpose is to oversee our ordinary course of business and is comprised of five to nine directors selected by Class D shareholders and a number of alternate directors of the same class of shares as the board of directors shall determine. In turn, whenever so called to participate, the General Manager may participate and shall have a right to speak but no voting rights.

The appointment of the members of this committee as well as any change in its composition, due to either resignation, leave of absence, addition or substitution of members, or otherwise, shall be communicated to the Central Bank and to the CNV as soon as it has been considered by the board of directors and within the period of time stipulated to that end by currently applicable rules and regulations.

The Executive Committee is required to meet at least once a month or whenever called by the Chairman of the board of directors and shall have all such powers and authority described in our bylaws and the “Executive Committee Operating Rules” as contemplated in our Code of Corporate Governance.

Pursuant to our bylaws, the powers and duties of the Executive Committee include (i) conducting our ordinary business as well as any matters delegated to it by the board of directors; (ii) developing commercial, credit-related and financial policies subject to approval by the board of directors; (iii) creating, maintaining and restructuring our administration; (iv) creating special committees, approving its structures or functional levels and determining the scope of their duties; (v) naming general managers, the Executive Vice President and other members of the senior management; (vi) submitting the creation of branches, agencies or representative offices inside or outside Argentina for the consideration of the board of directors; (vii) supervising management of our subsidiaries; (viii) submitting contracting guidelines, annual budgets, cost and investment estimates, necessary debt levels and plans of action to consideration by the board of directors; (ix) approving novations, refinancings, debt write-offs and similar matters when necessary in our ordinary course of business; and (x) setting forth its own internal regulations.

The current members of the Executive Committee are:

Name	Position
Eduardo Sergio Elsztain	Chairman
Saúl Zang	Regular Member
Mario Blejer	Regular Member
Ernesto Manuel Viñes	Regular Member
Pablo Daniel Vergara del Carril	Regular Member
Gabriel Adolfo Gregorio Reznik	Regular Member
Mauricio Elías Wior	Alternate Member

Election and Meetings of Directors

Our directors are elected for staggered two-year terms, unless they are elected to replace a previously appointed director. Following implementation of the *Programa de Propiedad Participada* (“PPP”), holders of Class B Shares are entitled to elect one director and one alternate director; *provided* that such shares represent more than 2.0% of our outstanding capital stock at the time the shareholders’ meeting is convened. Upon the transfer of Class C Shares to certain companies engaged in housing construction or real estate activities, holders of Class C Shares will be entitled to elect one director and one alternate director for so long as such shares represent more than 3.0% of our outstanding capital at the time the shareholders’ meeting is convened. Until the foregoing conditions are met, such directors will be elected by the Argentine government. If the percentage of our capital represented by Class B or Class C Shares falls to 2.0% or 3.0% or lower, respectively, holders of such classes will be entitled to vote jointly with the Class D shareholders. Holders of Class D Shares are entitled to elect nine directors and their respective alternates. For so long as at least one Class A Share is outstanding, holders of Class A Shares will be entitled to elect two directors and two alternates.

In general, directors are appointed by the vote of the majority of votes within each class of shares. The determination of the percentage of our capital represented by each class of stock is made in each case with respect to the capital outstanding as of the date of the shareholders’ meeting at which the election in question will be held. In the event that no shares of a determined class are represented at the second call of a shareholders’ meeting called for the purpose of electing directors, the directors and alternates that the class is entitled to appoint will be elected by the holders of the other classes of shares, voting as a single class, except in the event that no shareholders attend a Class A shareholders’ meeting, in which case the members of the Supervisory Committee elected by the Class A shareholders will appoint the directors and alternates that the holders of the Class A Shares are entitled to appoint.

Any or all directors elected by holders of a particular class of shares may be removed without cause by a simple majority of shares of such class of shares present at an ordinary shareholders’ meeting; *provided* that such removal was proposed in the agenda for such meeting. Any directors so removed will be replaced by alternates of the same class, in the order in which such alternates were elected, until an election for their replacement has been held (which election may take place at the same meeting as the removal).

Any shareholder or group of shareholders holding more than 3.0% of the Class D Shares may require that we send a slate of candidates for election as directors of such class proposed by such shareholder or group to each holder of Class D Shares. In addition, the board of directors may propose a slate of candidates for election as directors by each class of shares, and such slate will be sent to each holder of shares together with any slates proposed by shareholders as described in the preceding sentence. Any shareholder present at a meeting may propose candidates for election as directors. If any shareholder opposes the election of directors by slate, all directors will be elected individually, and each nominee on a slate will be deemed to have been nominated individually. If no slate or individual, as the case may be, obtains the majority of Class D votes present at the meeting, Class D shareholders shall elect one of the two slates or individuals, as the case may be, which obtained more votes in the previous election.

Argentine law requires the majority of our directors to be residents of Argentina. All directors must establish a legal domicile in Argentina for service of notices in connection with their duties. In addition, a director must satisfy certain suitability and experience requirements of the Central Bank before obtaining regulatory approval to begin his or her term.

Our bylaws require the board of directors and the Executive Committee to meet at least once per month. The Chairman of the board of directors may call a meeting of directors at any time and must call such a meeting upon the request of any director. The quorum requirement for meetings of the board of directors is a majority of the members, and if a quorum is not available one hour after the time set for a regularly called meeting, the Chairman or the person serving in his place at such meeting may invite the alternates of the same class as the absent directors to join the meeting in order to reach the minimum quorum. Resolutions must be adopted by a majority of the directors present (except for the cases when the director has an interest conflicting with those of the company); however, the chairman or the person serving in his place at a particular meeting is entitled to cast the deciding vote in the case of a tie. Because of the election of directors by classes of shares, for as long as several classes of shares of our capital stock are outstanding, the appointment of directors by cumulative voting will not apply.

Senior Management

Our senior management consists of the following officers:

<u>Name</u>	<u>Position</u>
Manuel Herrera	General Manager
Gerardo Rovner	Auditing Manager
Ernesto Manuel Viñes	Legal Department Manager
Tomás Godino	Financial Manager
Alejandro Sokol.....	Risk Manager
Mariano Cané	Planning and Control Management Manager
Ignacio Uranga	Corporate Banking Manager
Guillermo Mansilla	Retail Banking Manager
Favio Gabriel Podjarny	Corporate Services Manager
Sebastián Argibay Molina.....	Organizational and Quality Development Manager
Javier Eduardo Varani.....	Institutional Relations Manager
Esteban Vainer	Integral Unit for Housing Development Manager

Below are summary biographies of our senior managers that are not part of our Board of Directors:

Manuel Herrera. Mr. Herrera holds a degree in business administration from the Universidad Católica de Argentina. He carried out post-graduate studies at Harvard University. Mr. Herrera joined us in 2009. Mr. Herrera has more than fifteen years of experience in the Argentine and U.S. financial markets. Prior to joining us, he headed various areas in corporate banking and investment banking units at BankBoston Argentina.

Gerardo Rovner. Mr. Rovner obtained a degree in economics from the Universidad de Buenos Aires. He has been working with us for 21 years, acting as risk policy manager, collections management and operating risks manager, among others. In February 2012, he was appointed internal audit manager.

Tomás Godino. Mr. Godino obtained a degree in public accounting from the Universidad de Buenos Aires and a master's degree in finance from CEMA University. He worked until 2006 at the PwC firm in the audit area. Since then, he has been working in financial management at Banco Hipotecario S.A., where he has held the position of Capital Market Manager and was later appointed Finance Manager in 2017.

Alejandro Sokol. Mr. Sokol is a graduate of the Universidad de Buenos Aires of Economics, having attended actuary careers and a bachelor's degree in economics. He joined the Bank in 2009. Mr. Sokol brings more than 20 years of experience in financial markets, having served various roles both locally and internationally in companies such as BankBoston, Deloitte and Touche and IRSA.

Guillermo Mansilla. Mr. Mansilla obtained a degree in public accounting from the Universidad Argentina de Empresas and a master in business administration from the Universidad Católica de Córdoba. He joined the Bank on November 7, 2016. He has a long track record in the financial services industry, leading different commercial and service areas corresponding to retail banking and corporate Banking. Prior to joining the Bank, he was at Banco Comafi, where he served as Commercial Manager.

Ignacio Uranga. Mr. Uranga received his bachelor's degree in business administration from Universidad Católica Argentina. He holds an MBA from Universidad del CEMA. He joined the Bank in 2013. Mr. Uranga has more than 15 years of experience in financial markets. Prior to joining the Bank, he was in charge of the finance management of Edesur, manager of finances of Arcos Dorados Latin America and director of treasury of the Tejar.

Mariano Cané. Mr. Cané de Estrada obtained his bachelor's degree in economics and a master's in finance from Universidad Torcuato Di Tella. Mr. Cané de Estrada has more than 20 years of financial market experience in Argentina, the US and Europe. He has held various management positions in portfolio management, risk management and business analysis, including roles in the IRSA Group and in the Techint Organization. In 2012, he joined Banco Hipotecario as Asset and Liability Management Manager, and he currently occupies the position of Manager of Planning and Management Control Area.

Sebastián Argibay Molina. Mr. Argibay Molina holds a degree in business administration from the Universidad de Belgrano and a post-graduate degree in banking management from Universidad Torcuato Di Tella. Mr. Argibay Molina joined us in 1999 and currently serves as our Organizational and Quality Development

Manager. Prior to taking this position, Mr. Molina served in several different roles with us. Prior to joining us, Mr. Argibay Molina developed his career in Consulting at Coopers & Lybrand (subsequently merged with Price Waterhouse).

Favio Gabriel Podjarny. Mr. Podjarny joined us in December 2005 and currently serves as our Corporate Services Manager. He served as representative of the board of directors of IRSA Inversiones y Representaciones S.A., in charge of the Abril Club de Campo Project. Formerly, he served as Director of the Centro de Empleo y Emprendimientos Ariel Job Center, in charge of the overall administration and management of the organization. He was also in charge of the overall management of Sociedad Hebraica Argentina as the entity's Executive Director.

Javier Eduardo Varani. Mr. Varani joined us in June 2005 as our Institutional Relations Manager. Prior to joining us, he worked in the Media and Institutional Affairs divisions of Telecom Argentina and Telecom Personal. From 1995 to 1999, Mr. Varani was city councilor for Vicente López (Province of Buenos Aires). He is a university professor specialized in municipal matters.

Esteban Vainer. Mr. Vainer obtained a bachelor in business administration from UADE and a master's degree in business management from IAE. He joined the Bank in 2004 as Manager of Retail Banking until March 2016, when he moved into public administration acting as National Director of Investments under the Ministry of Communications of the Nation until April 2017. Since then he rejoined the Bank and has held the position of Area Manager Integral Unit for Housing Development.

Supervisory Committee

Article 20 of our bylaws provides for a Supervisory Committee consisting of five members ("syndics") and five alternate members. Pursuant to article 20(b) of the bylaws, the members of the Supervisory Committee are elected as follows: three members of the Supervisory Committee and three alternates are elected jointly by the Class C and Class D Shares, one member and one alternate are elected by the Class B Shares (to the extent such shares represent more than 2.0% of our outstanding capital stock) and one member and one alternate are elected by the Class A Shares. Syndics and alternate syndics are appointed for a two-year period. Pursuant to Argentine law, only lawyers and accountants admitted to practice in Argentina may serve as syndics of an Argentine *sociedad anónima*.

If Class B Shares do not represent 2.0% of our capital stock and the Class C Shares do not represent 3.0% of our capital stock, the Supervisory Committee will be reduced to three members and three alternates. Two members and two alternate members will be elected jointly by the Class B, C and D Shares and one member and one alternate member will be elected by the Class A Shares.

Meetings may be called by any of the syndics and shall be held with the presence of the absolute majority of its members, and resolutions shall be adopted by a majority of votes. Pursuant to article 294 of the Argentine Companies Law, the primary duties and powers of the Supervisory Committee are to: (i) supervise and inspect the corporate books and records whenever necessary, but at least quarterly; (ii) attend meetings of the directors, Executive Committee and shareholders; (iii) prepare an annual report concerning our financial condition and submit it to the shareholders at the ordinary annual meeting; (iv) provide certain information concerning us upon written request of any shareholder holding at least 2.0% of our outstanding capital; (v) call an extraordinary shareholders' meeting when necessary, on its own initiative or at the request of the shareholders, or an ordinary one when the board of directors fails to do so; (vi) include matters for the agendas of any meeting the Supervisory Committee must attend; (vii) supervise and monitor our compliance with laws and regulations, the bylaws and the shareholders' decisions; (viii) investigate written complaints submitted by holders of at least 2.0% of our capital; (ix) request our judicial dissolution and supervise the process; (x) designate directors when there are none remaining on the board of directors and the shareholders have failed to appoint replacements; and (xi) request judicial intervention in extraordinary circumstances, such as executive officer malfeasance threatening our condition. In performing these duties, the Supervisory Committee does not control our operation.

Currently the Supervisory Committee is composed of five syndics and five alternate syndics:

Name	Position	Class	Expiration of Term
Francisco Daniel González	Syndic	A	December 31, 2018
Héctor Oscar Ivancich	Syndic	B	December 31, 2018
José Daniel Abelovich	Syndic	C and D	December 31, 2018
Marcelo Héctor Fuxman	Syndic	C and D	December 31, 2018
Ricardo Flammini	Syndic	C and D	December 31, 2018
Marcelo Eduardo Couvin(*)	Alternate Syndic	A	December 31, 2018
Gabriel Andres Carretero	Alternate Syndic	B	December 31, 2018
Roberto Murmis	Alternate Syndic	C and D	December 31, 2018
Alicia Rigueira	Alternate Syndic	C and D	December 31, 2018
Noemí Cohn	Alternate Syndic	C and D	December 31, 2018

(*) Alternate Syndic for Clases “A” appointed on April 4, 2017. Their appointment is pending approval by the Central Bank, in accordance with Communication “A” 4490.

Below are summarized biographies of the members of our Supervisory Committee:

Francisco Daniel González. Mr. Gonzalez obtained a degree in accounting from Universidad de Buenos Aires. Since 1995, he serves at the Sindicatura General de la Nación, in addition, he has been a member of our Supervisory Committee since March 31, 2015. Mr. Gonzalez is also a member of the Supervisory Committee of Compañía Administradora del Mercado Mayorista Eléctrico S.A. (CMMESA), Papel Prensa S.A. and COVIARA Empresa del Estado. He served as an auditor at the Auditoría General de la Nación between 1993 and 1994.

Héctor Oscar Ivancich. Mr. Ivancich obtained a degree in law from the Universidad de Buenos Aires, and currently serves as an officer at the Sindicatura General de la Nación, and has been a member of our Supervisory Committee since March 31, 2015. He is also a member of the Supervisory Committee of Centro de Ensayos de Alta Tecnología S.A., CEATSA, Lotería Nacional S.E. and Educ.ar S.E. and of Contenidos Públicos S.E.

José Daniel Abelovich. Mr. Abelovich obtained a degree in accounting from the Universidad de Buenos Aires. He is a founding member and partner at Abelovich, Polano y Asociados S.R.L., a member firm of Nexia International. Formerly, he served as Manager of Harteneck, López y Cía/Coopers & Lybrand, and served as a senior advisor in Argentina for the United Nations and the World Bank. He is a member of the Supervisory Committees of Cresud S.A.C.I.F. y A., IRSA Inversiones y Representaciones Sociedad Anónima, IRSA Propiedades Comerciales S.A., Hoteles Argentinos e Inversora Bolívar S.A., among other companies.

Marcelo Héctor Fuxman. Mr. Fuxman obtained a degree in accounting from the Universidad de Buenos Aires. He is a partner at Abelovich, Polano & Asociados S.R.L., a member firm Nexia International. He is also a member of the Supervisory Committee of Cresud S.A.C.I.F. y A., IRSA Inversiones y Representaciones Sociedad Anónima and IRSA Propiedades Comerciales S.A., among other companies.

Ricardo Flammini. Mr. Flammini obtained a degree in accounting from the Universidad Nacional de La Plata. Mr. Flammini acted as our syndic from September 1997 until August 2001 and on May 30, 2003 he was elected for a two-year term. Mr. Flammini worked as auditor for the *Tribunal de Cuentas de la Nación* from 1957 to 1976 and was a member of the former Corporación de Empresas Nacionales from 1976 until August 2001. Formerly, he acted as syndic of Segba S.A., Hidronor S.A., YPF S.A., YCF S.E., Encotesa, Intercargo S.A., Banco Caja de Ahorro S.A., Pellegrini S.A. Gerente de Fondos Comunes de Inversión, Nación Bursátil Sociedad de Bolsa S.A., Garantizar S.G.R. and Nación AFJP. He currently serves as a syndic of BACS, BHN Sociedad de Inversión, BHN Vida S.A., BHN Seguros Generales S.A. and Tarshop

Marcelo Eduardo Couvin. Mr. Couvin, obtained a degree in public accounting from the University of Buenos Aires. He has a postgraduate degree in financial administration from the Asociación Argentina de Presupuesto Público ASAP UBA and a master in management and management of health services from the Universidad de Alcalá de Henares, Spain (Organización Iberoamericana de Seguridad Social OISS). Between 2004 and 2010, he was General Trustee of the National Institute of Social Services for Retirees and Pensioners; then he was in charge of the Internal Audit Unit of the National Civil Aviation Administration (ANAC). Since 2016 he has been a member of the Supervisory Commission of the Argentine Air Navigation Company S.A., of Intercargo S.A. And of the General Direction of Military Fabrications. He has served as Trustee in the Ministry of the Interior, in the

Ministry of Industry, Commerce and Mining, in the Ministry of Defense, in the General Directorate of Military Manufacturing, in Tandanor and in TAMSE.

Gabriel Andres Carretero. Mr. Carretero obtained a degree in accountancy from the Universidad Nacional de la Plata. He is an alternate syndic in our Supervisory Committee since April 13, 2016, having been appointed for a two-year term. He was Fiscal Auditing Accountant for the *Tribunal de Cuentas de la Nación* from 1957 to 1976. He was a member of the *Corporación de Empresas Nacionales* and currently serves in the *Sindicatura General de la Nación*.

Roberto Murmis. Mr. Murmis obtained a degree in accounting from the Universidad de Buenos Aires. Mr. Murmis is a partner at Abelovich, Polano y Asociados S.R.L., a member firm of Nexia International. Mr. Murmis worked as an advisor to the Secretariat of Federal Revenue under the Ministry of Economy. Furthermore, he is a member of the Supervisory Committee of Cresud S.A.C.I.F. y A., IRSA Inversiones y Representaciones Sociedad Anónima, Futuros y Opciones S.A. and Llao Llao Resorts S.A.

Alicia Rigueira. Ms. Rigueira obtained a degree in accounting from the Universidad de Buenos Aires. She is an auditing manager at Abelovich, Polano y Asociados S.R.L., a member firm of Nexia International, an accounting firm in Argentina. Prior to that, she worked as a manager at Harteneck, López y Cía. (Correspondent of Coopers & Lybrand). She is also an alternate member of the Supervisory Committees of Llao Llao Resorts S.A., Hoteles Argentinos S.A. and Nuevas Fronteras S.A.

Noemí Cohn. Ms. Cohn obtained a degree in accounting from the Universidad de Buenos Aires. She is a partner at Abelovich, Polano y Asociados S.R.L., a member firm of Nexia International, and serves in the auditing division. She worked at the auditing firm Harteneck, López and Company, Coopers & Lybrand in Argentina and in Los Angeles, California. Ms. Cohn is a member of the Supervisory Committees of Cresud S.A.C.I.F. y A., IRSA Inversiones y Representaciones Sociedad Anónima and IRSA Propiedades Comerciales S.A., among other companies.

Independence of Directors and Supervisory Committee

Pursuant to regulations of the CNV, members of the board of directors or the Supervisory Committee of a public company, such as ours, must inform CNV within ten days from the date of their appointment, whether such members are “independent”. For purposes of CNV Rules, a director shall not be considered independent in certain situations, including where a director (i) owns a 35% equity interest in a company, or a lesser interest if such director has the right to appoint one or more directors of a company (hereinafter “significant participation”) or has a significant participation in a corporation having a significant participation in the company or a significant influence on the company; (ii) depends on shareholders, or is otherwise related to shareholders, having a significant participation in the company or of other corporations in which these shareholders have directly or indirectly a significant participation or significant influence; (iii) is or has been in the previous three years an employee of the company; (iv) has a professional relationship or is a member of a corporation that maintains professional relationships with, or receives remuneration (other than the one received in consideration of his performance as a director) from, a company or its shareholders having a direct or indirect significant participation or significant influence on the same, or with corporations in which these also have a direct or indirect significant participation or a significance influence; (v) directly or indirectly sells or provides goods or services to the company or to the shareholders of the same who have a direct or indirect significant participation or significant influence, for higher amounts than his remuneration as a member of the administrative body; or (vi) is the spouse or parent (up to second grade of affinity or up to fourth grade of consanguinity) of persons who, if they were members of the administrative body, would not be independent, according to the above listed rules.

Carlos Bernardo Písula, Jacobo Julio Dreizen, Francisco Guillermo Susmel, Juan Rubén Jure Fernando Recalde and Martín Juan Lanfranco and Alternate Directors Federico León Bensadón, Claudio Anibal Ersinger, Francisco Jose Fares, Gabriel Quintela and Sandra Alonso are independent under applicable CNV Rules. Directors Eduardo Sergio Elsztain, Saúl Zang, Ernesto Manuel Viñes, Gabriel Gregorio Reznik, Pablo Vergara del Carril, Mauricio Elías Wior and Mario Blejer and Alternate Directors Ricardo Daniel Elsztain, Gustavo Daniel Efkhianian, Andrés Ocampo and Mario César Parrado are non-independent under CNV rules.

Syndics Francisco Daniel González and Héctor Oscar Ivancich and Alternate Syndics Marcelo Eduardo Couvin and Gabriel Andrés Carretero, appointed by the *Sindicatura General de la Nación* are independent. Syndics José Daniel Abelovich, Marcelo Héctor Fuxman and Ricardo Flammini and alternate statutory syndics Roberto Murmis, Noemí Cohn and Alicia Rigueira are independent according to CNV Rules.

Compensation

Argentine law provides that the compensation paid to all directors and syndics in a fiscal year shall not exceed 5.0% of net income for such year, if the company is not paying dividends in respect of such net income. Argentine law increases the annual limitation on director compensation to up to 25.0% of net income based on the amount of such dividends, if paid. The board of directors determines the compensation of directors who are also senior managers, and these directors abstain from voting. In the case of directors that perform duties at special committees or perform administrative or technical tasks, the aforesaid limits may be exceeded if a shareholders' meeting so approves and such issue is included in the agenda, and regulations of the CNV are complied with. In any case, the compensation of all directors and members of the Supervisory Committee requires shareholder ratification at an ordinary meeting.

In addition, a shareholders' meeting held on April 28, 1999 established a profit-sharing plan pursuant to which participants received specific variable shares in our profits based on the achievement of certain goals related to return on equity. Such plan is currently in force and applicable only to our senior managers.

On July 21, 2006, our shareholders approved an amendment to article 14 of our bylaws in relation to the compensation of the Executive Committee. Pursuant to such amendment, the members of the Executive Committee will receive fees not in excess of 5% of the income after taxes for the year if no dividends are distributed. If a dividend is distributed, the fees may amount up to 15% of computable income. The above indicated compensation percentages shall be previously reduced by the amounts paid to the other members of our board of directors.

The aggregate compensation paid to our directors for the fiscal year ended December 31, 2016 was Ps.19,566 million, while the aggregate amount paid to the Supervisory Committee was Ps.6,319 million. In addition, the compensation paid to our Executive Committee and our Senior Management was Ps.28,223 million and Ps.98,093 million, respectively, for the fiscal year ended December 31, 2016. Such compensation paid to our Directors, Executive Committee and Senior Management corresponds to amounts paid in cash, which do not include bonuses or participation in the profits of the Bank. The compensation for the fiscal year ended 2017 will be decided at our next shareholders' meeting.

Committees Reporting to the Board of Directors

Audit Committee

We have an Audit Committee as required by the CNV and the Central Bank. The table below shows the composition of our Audit Committee:

Regular Members	Position
Carlos B. Pisula ^(*)	Director
Jacobo Julio Dreizzen ^(*)	Director
Francisco Guillermo Susmel	Director

Attendees	Position
Gerardo Rovner	Audit Manager

(*) Independent directors.

In conformity with its rules, the Audit Committee shall be integrated by no less than three and no more than seven regular directors and the highest-ranking internal audit officer shall be in attendance at its meetings. At present, the committee is integrated by three directors, with its majority meeting the independent director requirement and with one of them serving as chairman. Its members are skilled in corporate, financial or accounting matters. The members of the committee who are directors shall serve in the Audit Committee for a minimum period of two years (in so far as their term of office does not come to an end sooner) and for a maximum of three years. This term may be extended only on a case-by-case basis by express decision of the board of directors. The term in office as member of the Audit Committee must not coincide with the term in office as director in a manner such that the committee shall always have amongst its members a director experienced in the matter.

The highest-ranking internal audit officer must not be within the scope of the prohibitions and incompatibilities set forth in section 264 of Argentine Companies Law and section 10 of the Financial Institutions

Law. This officer participates in the Audit Committee meetings and may voice his or her opinion though not cast votes. Furthermore, the members of the Audit Committee are bound by the principles laid down under the headings “Duty of Diligence;” “Duty of Secrecy and Confidentiality;” and “Duty of Loyalty and Non-Compete Obligation” of the Code of Corporate Governance.

The appointment of the members of the Audit Committee as well as any change in its composition, due to either resignation, leave of absence, addition or substitution of members, or otherwise, shall be communicated to the Central Bank and to the CNV as soon as it has been considered by the board of directors and within the period of time stipulated to that end by currently applicable rules and regulations.

The Audit Committee has the following powers and duties, which shall be discharged in the framework of: (i) the minimum requirements on internal controls issued by the Central Bank and (ii) Law No. 26,831 and CNV’s General Resolution No. 622/2013 and any supplementary resolution or amendment thereto:

- To oversee the operation of our risk management, internal control and administrative and accounting systems, as well as the reliability of the accounting system and of all financial information or other material events filed with the CNV, the Central Bank and the self-regulated entities in the discharge of reporting obligations.
- To contribute to the improvement of internal controls procedures.
- To supervise compliance with observations made by internal and external auditors with respect to internal controls.
- To review and approve the internal audit function and process.
- To coordinate tasks between internal and external auditors.
- To review the results obtained by the Supervisory Committee.
- To review the annual and quarterly financial statements, the external auditors’ reports and all the relevant accounting information.
- To issue an opinion regarding the Board of Director’s proposal concerning the appointment of external auditors (or, as applicable, the termination of their appointments) and to make sure that they remain independent.
- To ensure compliance with our Code of Ethics.
- To review the external auditor’s annual plan, the reports on internal controls prepared by the external auditors, the results of the assessments performed by the Financial Superintendency regarding the external auditors’ performance and to assess their performance.
- To consider the results of the Financial Superintendency assessments over internal controls and to propose to the board of directors the answer and, as applicable, corrective measures.
- To supervise compliance with risk management policies.
- To provide the market with complete information about transactions involving conflicts of interest with officers, managers or controlling shareholders.

Social and Institutional Committee

The table below shows the composition of our Social and Institutional Committee:

Regular Members	Position
Eduardo Sergio Elsztain.....	Chairman
Juan Ruben Jure.....	Director
Attendees	Position
Manuel Herrera.....	General Manager
Javier Varani.....	Manager of Institutional Affairs

The Social and Institutional Committee has the following powers and duties:

- To define the policies governing donations and subsidies, and to submit them to approval by the board of directors.
- To grant subsidies for social and/or cultural purposes.
- To approve the donation of unused real property.
- To take part in any matter relating to our image or our role in society.
- To consider the environmental impacts of the construction projects or civil works we fund.
- To review the “Social Balance Sheet” and report and to submit it to approval by the board of directors.
- To review all relevant information in connection with our social responsibility and its subsidiaries.

Information Technology Committee

The table below shows the composition of our Information Technology Committee:

Regular Members	Position
Martín Lanfranco	Director
Mauricio E. Wior	Director
Alternate Members	Position
Gabriel A. Reznik	Director
Attendees	Position
Julieta Albala	Processes, Systems and Technology Manager
Ricardo Gastón.....	Manager of Physical and Logical Security

The Information Technology Committee performs its duties in accordance with the provisions of Communication “A” 4609 of the Central Bank and related provisions, and shall meet regularly at least once every three months. The Committee is responsible for ensuring that related information and technology systems meet the needs of our business and are in line with our strategic plans. Accordingly, the Committee is responsible, among other things, for the following activities:

- To provide the guidelines necessary for the board of directors to prepare and approve a technology plan and to follow up on the implementation and progress thereof.
- To oversee the adequate performance and efficiency of the information technology area.
- To supervise reports on information technology matters.
- To maintain adequate contact with the division of independent auditors of Central Bank’s Financial Superintendency.

Committee for the Control and Prevention of Money Laundering and Terrorism Financing

The table below shows the composition of our Committee for the Control and Prevention of Money Laundering and Terrorism Financing:

Regular Members	Position
Ernesto Manuel Viñes	Director
Mauricio Elías Wior.....	Director
Attendees	Position
Alejandro Sokol	Risk Manager
Jorge Gimeno	Manager of Money Laundering Prevention Unit

The Committee for the Control and Prevention of Money Laundering and Terrorism Financing shall discharge its duties in compliance with: (i) the rules governing Money Laundering Prevention and Control and other

Unlawful Activities as issued by the Central Bank; (ii) Resolution No. 2/2002 issued by the UIF, Law Nos. 25,246 and 26,268 and related laws and regulations, including their implementing Decrees; (iii) Executive Orders issued by the Executive Branch of the Argentine government in connection with the resolutions adopted by the UN's Security Council to combat terrorism and shall also comply with the provisions laid down by the Ministry of Foreign Affairs, Foreign Trade and Religion; and (iv) our Code of Corporate Governance.

Finance Committee

The Finance Committee is composed of at least three directors, and the General Manager and the top executive officers of the Financial and Market Risk Management Departments can participate but have no voting rights. The table below shows the composition of our Finance Committee:

Regular Members	Position
Mauricio Elías Wior.....	Director
Jacobo Julio Dreizzen	Director
Carlos Bernardo Pisula.....	Director
Mario Blejer.....	Director
Fernando Recalde.....	Director
Attendees	Position
Manuel Herrera	General Manager
Alejandro Sokol	Risk Manager

The Finance Committee has the following powers and duties:

- To control our liquidity and solvency levels and to define the levels of tolerance to liquidity risk.
- To determine the level of liquid asset surpluses that should be maintained in order to face a range of stress events.
- To define the limits and/or zones for early alerts in the case of financial risks, including though not limited to imbalances in cash flows, exchange rate and interest rate.
- To take part in the evaluation and approval of financial products.
- To define strategies for investing in liquid assets and to be familiar with financial assets management and with our general foreign exchange position.
- To approve limits on the exposure to government and corporate debt securities, shares, metals and currencies.
- To authorize, within the limits imposed by the board of directors, operations involving futures, forwards and other derivatives both for hedging and arbitrage strategies.
- To fix, assess and control the financial risk of the different portfolios of investments.
- To submit for consideration by the board of directors, transactions involving the issuance and placement of debt within the framework and following the modalities laid down in the shareholders' meetings.
- To foster the establishment of financial trusts.
- To recommend the underwriters, rating agencies, law firms and auditors to be hired for issuing and placing debt securities.
- To propose debt repurchase transactions and refinancings.
- To review reports about our liquidity position.
- To supervise the Finance Department.

Credit Committee

The Credit Committee shall be composed of no less than three and no more than seven regular directors plus the highest-ranking officers in the areas of risk control and corporate banking. The latter will take part in meetings with powers to voice their opinions but not to cast votes. The table below shows the composition of our Credit Committee:

Regular Members	Position
Mauricio Elías Wior.....	Director
Jacobo Julio Dreizzen	Director
Saúl Zang	Director
Carlos Bernardo Pisula.....	Director
Ernesto Manuel Viñes	Director
Fernando Recalde.....	Director
Francisco Susmel	Director

Attendees	Position
Manuel Herrera	General Manager
Alejandro Sokol	Risk Manager
Marcelo Portas	Credit Risk Manager of Corporate Banking

The Credit Committee has the following powers and duties:

- To submit the credit policies concerning the whole loan cycle for the personal banking and corporate banking segments for consideration and approval by the board of directors.
- To recommend approval of the credit programs that supplement the product programs prepared when launching new products and/or deals that entail credit risk.
- To approve funding for legal entities and for the public sector for up to the amounts defined by the board of directors.
- To approve funding for individuals for up to the amounts defined by the board of directors for mortgage-secured products and for other loans not secured with a mortgage (personal loans, pledges, credit card limits or limits on checking accounts).
- To issue an opinion on the types of funding not described in the preceding paragraphs and on all the other fundings in excess of the basic margin established by the credit rating rules and 2.5% of our regulatory capital for consideration by the Executive Committee.
- To approve, on a monthly basis, the levels of loan loss provisions applicable to the loan portfolio in accordance with the rules of the Central Bank and prudential criteria.
- To propose the criteria to be adopted in the sale of loan portfolios.
- To take part in decisions concerning credit aid to related individuals and legal entities and, accompanied by an opinion, submit them to consideration by the board of directors, when applicable.
- To review the management reports concerning loan portfolio performance, at such intervals as determined in each case, and to recommend actions when applicable.
- To control our situation vis-à-vis prudential ratios in terms of credit fractioning, concentration and rating.

Employee Incentive Committee

The table below shows the composition of our Employee Incentive Committee:

Regular Members	Position
Eduardo Sergio Elsztain.....	Director
Saúl Zang	Director
Gabriel A Reznik	Director
Carlos Bernardo Pisula.....	Director

The Employee Incentive Committee has the following powers and duties:

- To lay down policies and practices to financially incentivize personnel to manage risk, capital and liquidity.
- To make sure that financial incentives are compliant with the guidelines laid down in current rules and regulations governing this matter.
- To make sure that financial incentives are:
- tied to the contribution by each individual and each business unit to our performance; and
- established in line with the objectives sought by our shareholders.
- To promote and coordinate the annual assessment of financial incentives for our personnel by an independent division or an external entity.

Risk Management Committee

The table below shows the composition of our Risk Management Committee:

Regular Members	Position
Carlos B. Pisula.....	Director
Jacobo Julio Dreizzen	Director
Mauricio Wior.....	Director

Attendees	Position
Manuel Herrera	General Manager
Alejandro Sokol	Risk Manager

The Risk Management Committee has the following powers and duties:

- To monitor risk management in terms of credit, market, liquidity, interest rate and operational risks, using as a benchmark the best practices in the field of risk management.
- To propose risk tolerance levels and risk management strategies.
- To propose risk management policies to the board of directors and to review them at regular intervals, and at least annually.
- To propose stress testing programs and contingency plans and to review them at regular intervals, at least once a year.
- To provide for an adequate dissemination of information about the entity's risk management framework.
- To make sure that senior management and personnel in the areas involved rely on the skills and experience required for managing risk.
- To assess the risk profile based on the definitions in the business plan and, when applicable, to make sure that corrective actions are undertaken.
- To assess the outcome of any comprehensive stress tests run and contingency plans in force and to ensure that corrective actions are implemented in the event of stress situations.

- To make sure that the policy governing financial incentives to personnel does not conflict with the entity’s risk strategy.
- To submit for consideration by the board of directors an evaluation as to whether the entity’s capital levels are adequate in the face of the risks it assumes.
- To review the outcomes of the controls over risk management processes and, whenever applicable, ensure that all necessary corrective measures are taken.

Corporate Governance Committee

The table below shows the composition of our Corporate Governance Committee

Regular Members	Position
Carlos Pisula	Director
Saúl Zang	Director
Ernesto M. Viñes	Director

Attendees	Position
Manuel Herrera	General Manager

The Corporate Governance Committee has the following powers and duties:

- To supervise the application of the Corporate Governance Code and adherence to the corporate principles of “full disclosure,” “transparency,” “efficiency,” “investor protection,” “equal treatment amongst investors” and “protection of the entity’s stability”.
- To prepare reports concerning board of directors’ and senior management’s performance for review by the board of directors.
- To take part in all changes to our structure, rendering an opinion about their effects *vis-à-vis* the corporate governance policies.
- To oversee implementation of the policies and rules governing our relationship with business groups.
- To gather information about transactions with affiliates, related companies, the shareholders and the members of management and, overall, those that may be relevant in determining the degree of effectiveness and adherence to the duties of loyalty, diligence and independence.
- To oversee that the shareholders, investors and the market in general have full and timely access to any information that the issuer is duty-bound to truthfully disclose.
- To monitor any trades conducted by our directors, syndics and managers involving securities we or our subsidiaries have issued as well as any agreements with related parties.
- To supervise application of the policies dealing with the remuneration of directors and general management members.
- To propose changes to our Corporate Governance Code and its subsidiaries.
- To become aware of the regulatory compliance risks associated with the business including those related to the development of new products and commercial practices through the reports produced by the relevant areas.

Ethics Committee

The table below shows the composition of our Ethics Committee

Regular Members	Position
Martín Lanfranco	Director
Carlos Pisula	Director
Gabriel Reznik	Director

The Ethics Committee has the following powers and duties:

- To settle issues relating to the interpretation of the Code of Ethics in connection with directors' general manager's or divisional managers' behavior.
- To begin investigations following reports received from our employees concerning alleged deviations from the Code of Ethics.
- To apply the provisions of the Code of Ethics. Each case shall be confidentially treated by the committee.
- Under no circumstances shall adverse measures be implemented against the person posing the enquiry or against whom there are suspicions of a potential crime or irregular situation in breach of the provisions laid down by the Code of Ethics, a law, regulation or our internal procedures.

PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding ownership of our capital stock in Argentina and abroad as of June 30, 2017.

Shareholder	Class ⁽¹⁾	Number of Shares	Percentage of Shares	Number of Votes ⁽²⁾	Percentage of Votes
Argentine government/ Banco de la Nación Argentina as trustee of Fideicomiso de Asistencia al Fondo Federal de Infraestructura Regional.....	A	664,829,068	44.32%	664,829,068	22.88%
Banco de la Nación Argentina, as trustee of the PPP	B	57,009,279	3.80%	57,009,279	1.96%
Banco de la Nación Argentina, as trustee of Fideicomiso de Asistencia al Fondo Federal de Infraestructura Regional.....	C	75,000,000	5.00%	75,000,000	2.58%
The Bank of New York ADRs ⁽³⁾	D	90,905,000	6.06%	272,715,000	9.38%
Principal Shareholders ⁽⁴⁾	D	448,689,072	29.92%	1,346,067,216	46.32%
Banco Hipotecario S.A. ⁽⁵⁾	D	36,634,733	2.44%	109,904,199	3.78%
Directors ⁽⁶⁾	D	32,100	0.00%	96,300	0.00%
Other.....	D	52,863,483	3.52%	158,717,894	5.46%
ANSES	D	74,037,265	4.94%	222,111,795	7.64%
Total		1,500,000,000	100.00%	2,906,323,306	100.00%

- (1) Our Class A, B and C shares carry one vote per share while Class D shares carry three votes per share. Class A shares account for 42% or more of our capital stock. On February 10, 2015, the MAE authorized the Bank to list Class A, B, C and D shares.
- (2) The number of votes results from multiplying the number of shares by the number of votes per share. Our treasury stock carries no voting rights pursuant to section 221 of the Argentine Companies Law. The principal shareholders have voting rights up to 30% (thirty percent) of our outstanding capital stock. For more information, see “Description of Capital Stock”.
- (3) Comprises 9,090,500 ADRs (10 shares = 1 ADR) the voting powers of which are exercised by the Argentine government. For further information, see “Description of Capital Stock”.
- (4) As of June 30, 2017, our principal shareholders include: (i) 5% held by Tyrus S.A., a company organized under the laws of the Republic of Uruguay, in which IRSA holds 100% of its capital stock; (ii) 5% held by Ritelco S.A., a company organized under the laws of the Republic of Uruguay, in which IRSA holds 100% of its capital stock; (iii) 4.93% held by IRSA; (iv) 5% held by Inversora Bolívar S.A., a company organized under laws of Argentina, in which IRSA holds directly and indirectly 100% of its capital stock; (v) 5% held by E-Commerce Latina S.A., a company organized under laws of Argentina, in which IRSA holds directly and indirectly 100% of its capital stock; (vi) 4.99% held by Palermo Invest S.A., a company organized under the laws of Argentina, in which IRSA holds directly and indirectly 100% of the capital stock; and (vii) 0.0003% directly owned by Sergio Eduardo Elsztain. In addition, IRSA is controlled by (i) Cresud, which holds directly and indirectly 63.38% of the capital stock (366,788,251 shares), and (ii) 900 shares directly held by Mr. Eduardo Sergio Elsztain. Lastly, Mr. Eduardo Sergio Elsztain beneficially owns 35.83% of the aggregate number of shares of Cresud, which includes (i) 179,724,090 shares beneficially owned by Inversiones Financieras del Sur S.A., of which Mr. Eduardo Sergio Elsztain is the beneficial owner; (ii) 880 common shares beneficially owned by Consultores Venture Capital Uruguay S.A.; (iii) 752 common shares beneficially owned by Consultores Assets Management S.A.; (iv) 1,783 common shares beneficially owned by Austral Gold Argentina S.A.; and (v) 565 common shares directly owned by Eduardo Sergio Elsztain.
- (5) Includes 35,100,000 shares granted by our shareholders to an employee compensation program, which as of June 30, 2017 has not yet been implemented.
- (6) As of June 30, 2017, Eduardo Sergio Elsztain, Pablo Vergara del Carril and Andrés F. Ocampo held 5,000; 27,000 and 100 Class D shares, respectively.

Voting Rights of Principal Shareholders

Holders of a majority of Class D shares are entitled to elect nine members of the board of directors. Under the Privatization Law and pursuant to article 6 of our bylaws, the Argentine government will have the right to elect at least two regular directors and two alternate directors to the board of directors, so long as it holds at least one Class A share. Principal shareholders do not have different voting rights within the same Class. article 6 of our bylaws requires, subject to certain exceptions, the prior approval of the Argentine government, as holder of Class A shares, of any person’s (including its affiliates’) direct or indirect acquisition by stock purchase, merger or otherwise, of Class D shares or securities convertible into Class D shares which, together with prior Class D shares held by the acquirer, represent 30% or more of our capital stock. The approval of the holders of our Class A shares

is also required for certain of our changes including spin-offs, the transfer of a substantial part of our loan portfolio to a third party and a change in our corporate purpose.

So long as the principal shareholders vote their Class D shares together, they will have sufficient voting power to elect a majority of our board of directors and to prevail in all matters to be decided by a class vote of holders of Class D shares.

The Argentine government has no limitation with respect to the disposition of its Class A shares, except that it must always keep one Class A share pursuant to section 20 of the Law on Regional Development and Employment Creation. In addition, pursuant to our bylaws, if as a result of a sale of Class A shares by the Argentine government, Class A shares represent less than 42% of our capital stock, Class D shares will lose the triple vote. In this event, Class D shares will lose its current majority at the general shareholders' meetings and, depending on the number of shares held by the Argentine government, the Argentine government may have sufficient voting power to prevail at general shareholders' meetings except for certain decisions that require qualified majorities.

Except as indicated above, we are not aware of the existence of other shareholders holding more than 5% of our capital stock. However, the principal shareholders have the power to elect a majority of the members of the board of directors as done so far. Moreover, we are not aware of any agreement which, in event of becoming effective, may cause a change of control.

On January 12, 2010, our board of directors resolved as follows: (i) to discuss at the general ordinary shareholders' meeting delivery of such Class D treasury shares in payment to the holders of Stock Appreciation Rights ("StAR") in proportion to their shareholdings and based on the share price at such time, and (ii) to discuss possible alternatives for the general ordinary shareholders' meeting to decide on the application of any remaining shares. The general ordinary shareholders' meeting held on April 30, 2010 resolved to extend for one year from January 31, 2010, the period to realize our treasury shares. In addition, such meeting held on April 30, 2010 resolved to delegate to the board of directors the decision to pay StAR coupons—out of treasury shares—resulting from the debt restructuring as deemed fit based on calculations related to contract and real market value thereof, conferring on the shareholders preemptive rights on the same terms.

On June 16, 2010, the board of directors resolved to make an offer for sale subject to preemptive rights of treasury shares held at such time. Accordingly, on July 26, 2010, pursuant to such offer, approximately Ps.26.9 million of such shares were disposed of and the proceeds from such offer and the remaining shares were made available to the holders of StAR coupons on August 3, 2010.

The PPP was implemented pursuant to Decree No. 2127/2012 and Resolution No. 264/2013 issued by the Ministry of Economy and Public Finance, whereby during the first stage 17,990,721 Class B shares of stock out of an aggregate number of 75,000,000 shares were converted into Class A shares so as to be allocated among the agents who have terminated their relationship with us in accordance with the implementing guidelines. The 17,990,721 shares shall become Class D shares at the time of delivery to the former agents. The shares allocated to our personnel who are currently in service are Class B shares and fall within the scope of the Shared Ownership Program.

RELATED PARTY TRANSACTIONS

Argentine law sets forth certain restrictions and limitations on transactions with certain related parties. For purposes of this section, “Related Parties” means our directors, principal officers, statutory auditors and controlling shareholders, as well as any person related to them and any entity that is directly or indirectly related to any of them and which are not required to be consolidated pursuant to applicable laws.

Pursuant to the Argentine Companies Law and the Central Bank Accounting Rules directors of a company are permitted to engage in transactions with such company if the transaction is consistent with market practices. In addition, granting of loans to Related Parties is subject to the Central Bank Accounting Rules. Such rules establish limits on the amount of the loan permitted to be granted to Related Parties based, among other things, on a percentage of our adjusted shareholders’ equity. The Central Bank requires monthly reporting of the amount of outstanding loans of directors, controlling shareholders, officers and other related entities transcribed in the minutes of the board of directors. The Central Bank Accounting Rules set forth that loans to directors, controlling shareholders, officers and other related entities shall be granted on equal terms in relation to rates, terms and guarantees of loans granted to the public at large.

We are not engaged in any transaction with Related Parties, nor have we granted any loan and there is no proposed transaction with such Related Parties, except for those permitted under applicable laws. In particular, some directors and senior managers have engaged in certain credit transactions with us.

Moreover, pursuant to our bylaws, any merger, consolidation or other combination with substantially the same effect involving us and an acquirer that has previously carried out a “Control Acquisition,” meaning an acquisition of shares or convertible securities as a result of which the acquirer, directly or indirectly through or together with its affiliates (collectively, an “Acquirer”), would own or control Class D shares that, combined with such Acquirer’s prior Class D shares, would represent 30% or more of our outstanding capital stock; or by any other person or persons, if such transaction would have substantially the same effects as a Control Acquisition (a “Related Party Transaction”), must be carried out in accordance with the provisions described below.

Each tendering shareholder must receive the same price per share in any Related Party Transaction, which price shall not be less than the highest of the following:

- (i) the highest price per share paid by or on behalf of the party seeking to carry out the Related Party Transaction (an “Interested Shareholder”) for (a) shares of the Class to be transferred in the Related Party Transaction within the two-year period immediately preceding the announcement of the Related Party Transaction or (b) shares of the Class acquired in any Control Acquisition, in each case adjusted for any stock split, stock dividend, subdivision or other reclassification affecting the Class;
- (ii) the highest closing sale price of shares of the Class on the BCBA during the 30 days immediately preceding the announcement of the Related Party Transaction or the date of any Control Acquisition by the Interested Shareholder, adjusted for any stock split, stock dividend, subdivision or reclassification affecting the Class;
- (iii) the price per share resulting from clause (ii), multiplied by a fraction, the numerator of which shall be the highest price paid by or on behalf of the Interested Shareholder for any share of the Class during the two years immediately preceding the announcement of the Related Party Transaction, and the denominator of which shall be the closing sale price for shares of the Class on the date immediately preceding the first day in the two-year period referred to above on which the Interested Shareholder acquired any interest or right in shares of the Class, in each case as adjusted for any stock split, stock dividend, subdivision or reclassification affecting the Class; and
- (iv) the net earnings per share of the shares of the Class during the four most recent full fiscal quarters preceding the announcement of the Related Party Transaction multiplied by the higher of (a) the price/earnings ratio during such period for the shares of the Class (if any) and (b) our highest price/earnings ratio in the two-year period preceding the announcement of the Related Party Transaction, in each case determined in accordance with standard practices in the financial community.

Any such offer must remain open for a minimum of 90 days following the service of notice to the shareholders or the first publication of the offer, and shareholders shall have the right to withdraw tendered shares at

any time until the closing of the offer. Following the closing of such tender offer, the Acquirer will be obliged to acquire all tendered shares or convertible securities; *provided* that if the number of shares tendered is less than the minimum, if any, upon which such tender offer was conditioned, the Acquirer may withdraw the tender offer. The Acquirer may consummate any proposed agreement within 30 days following the closing of the tender offer; *provided* that if such tender offer was conditioned on the acquisition of a minimum number of shares, the proposed agreement may be consummated only if such minimum was reached. If no proposed agreement existed, the Acquirer may acquire the number of shares indicated in the notice provided to us on the terms indicated in such notice to the extent such number of shares were not acquired in the tender offer; *provided* that any condition relating to a minimum number of shares tendered has been met.

The following table sets forth the Related Party Transactions we have entered into on a comparative basis as of December 31, 2016 and June 30, 2017:

	<u>As of</u> <u>December 31, 2016</u>	<u>As of</u> <u>June 30, 2017</u>
	(in thousands of pesos)	
Loans		
BACS Banco de Crédito y Securitización	33,342	24,108
Miscellaneous receivables – Miscellaneous Debtors		
BACS Banco de Crédito y Securitización	9,443	9,010
BHN Vida	20,467	5,470
BHN Seguros Generales.....	10,850	3,430
Tarshop	1,898	136
BHN Sociedad de Inversión.....	—	750,000
Deposits – Checking Accounts and Fixed-Term Deposits		
BHN Sociedad de Inversión.....	1,172	1,807
BHN Vida	2,357	449
BHN Seguros Generales.....	358	198
BH Valores.....	15	2,996
BACS Banco de Crédito y Securitización	3,426	11,678
Tarshop	54,628	26,623
Other Liabilities from Financial Intermediation		
BHN Seguros Generales.....	1,464	13,408
BHN Vida	10,523	36,651
BACS Banco de Crédito y Securitización	21,590	13,180
Miscellaneous Liabilities		
BHN Seguros Generales.....	11,745	4,642
BHN Vida	19,303	10,023
BACS Banco de Crédito y Securitización	—	3,684
Tarshop	—	115

ARGENTINE BANKING SYSTEM AND REGULATION

The following is a summary of certain matters relating to the Argentine financial system, including provisions of Argentine law and regulations applicable to financial institutions in Argentina. This summary is not intended to constitute a complete analysis of all laws and regulations applicable to financial institutions in Argentina. Prospective investors in the Notes are advised to consult their legal advisors for a more detailed analysis thereof.

This information should be read in conjunction with, and is qualified in its entirety by reference to, “Risk Factors” in this offering memorandum.

The Argentine Banking System

As of April 30, 2017, the Argentine financial system consisted of 78 financial institutions (banks, finance companies and credit unions), 65 of which were domestic or foreign owned private institutions, and 13 of which were Argentine or provincial government-owned financial entities.

As of April 30, 2017, out of the 65 private financial institutions, 33 were privately-owned Argentine financial institutions; 17 were privately-owned foreign financial institutions (i.e., branches or subsidiaries of foreign financial institutions); 14 were privately-owned financial institutions (i.e., corporations (*sociedades anónimas*)) and one was a privately-owned cooperative bank (*banco cooperativo limitado*).

The ten largest privately-owned commercial banks, in terms of total assets, as of April 30, 2017, were: Banco Santander Río S.A.; Banco de Galicia y Buenos Aires S.A.; BBVA Banco Francés S.A.; Banco Macro S.A.; HSBC Bank Argentina S.A.; Banco Credicoop Coop. Ltda.; Industrial and Commercial Bank of China S.A. (Argentina); Banco Patagonia S.A.; Citibank, N.A. and Banco Supervielle S.A. According to information of the Central Bank, as of April 30, 2017, privately-owned commercial banks accounted for approximately 54.1% of deposits and approximately 64.8% of loans in the Argentine financial system. The largest foreign banks operating in Argentina at such date, in terms of assets, were Banco Santander Río S.A.; BBVA Banco Francés S.A.; HSBC Bank Argentina S.A.; Banco Patagonia S.A.; Industrial and Commercial Bank of China (Argentina) S.A.; and Citibank, N.A. Foreign banks established in Argentina are subject to the same regulatory conditions as Argentine banks. Cooperative banks are active principally in consumer banking, with a special emphasis on the retail segment of the market. As of April 30, 2017, financial institutions (other than banks) accounted for approximately 0.3% of deposits and 3.4% of loans in the Argentine financial system.

The largest Argentine government-owned banks, in terms of total assets, were Banco de la Nación Argentina and Banco de la Provincia de Buenos Aires. Under the provisions of the FIL, public banks have comparable rights and obligations as private banks, except that public banks handle public revenues and promote regional development and certain public banks have preferential tax treatment. The bylaws of some Argentine government-owned banks provide that the governments that own them (national and provincial) guarantee their commitments. Under current law, Banco de la Provincia de Buenos Aires will not be subject to taxes, levies or contributions that the Argentine government may impose. According to information published by the Central Bank, as of April 30, 2017, government-owned commercial banks and commercial banks in which the Argentine government had a majority equity interest accounted for 45.5% of deposits and 31.7% of loans in the Argentine financial system.

Due to the delay of the Central Bank to update the information on the financial system, we cannot provide more recent information and cannot assure you that the information mentioned above has not become outdated as of the date of this offering memorandum.

Argentine Banking Regulation

Overview

Founded in 1935, the Central Bank is the principal monetary and financial authority in Argentina. Its mission is to preserve the value of currency and financial stability, employment and economic development with social equity. It operates pursuant to its charter, as amended in 2012 by Law No. 26,739 and the provisions of the FIL. Under the terms of its charter, the Central Bank must operate independently from the Argentine government.

Since 1977, banking activities in Argentina have been regulated primarily by the FIL, which empowers the Central Bank to regulate the financial sector. The Central Bank regulates and supervises the Argentine banking system through the Financial Superintendency. The Financial Superintendency is responsible for enforcing

Argentina's banking laws, by establishing accounting and financial reporting requirements applicable to the banking sector, monitoring and regulating the lending practices of financial institutions and establishing rules for the participation of financial institutions in the foreign exchange market and the issuance of bonds and other securities, among other functions.

The powers of the Central Bank include the authority to fix monetary base, establish interest rate, determine minimum capital, liquidity and solvency requirements, regulate credit, approve bank mergers, approve certain capital increases and transfers of stock, grant and revoke banking licenses, authorize the establishment of branches of foreign financial institutions in Argentina and the extension of financial assistance to financial institutions in cases of temporary liquidity or solvency problems.

The Central Bank establishes certain "technical ratios" that must be observed by financial institutions, such as ratios related to levels of solvency, liquidity, the maximum loans to be granted to clients and assets and liability positions denominated in foreign currency.

In addition, the financial institutions require authorization from the Central Bank to dispose of their assets, as well as to open or change branches or ATMs, purchase interests in other financial or non-financial companies and to create encumbrances on assets, among other.

As supervisor of the financial system, the Central Bank requires financial institutions to submit information on a daily, monthly, quarterly, semiannual and annual basis. These reports, which include balance sheets and income statements, information relating to reserve funds, use of deposits, classifications of portfolio quality (including details on principal debtors and any allowances for loan losses), compliance with capital requirements and any other relevant information, allow the Central Bank to monitor the business practices of financial institutions. In order to confirm the accuracy of the information provided, the Central Bank is authorized to conduct inspections.

If the Central Bank rules are not complied with, various sanctions may be imposed by the Financial Superintendency, depending on the level of infringement. These sanctions range from a notice of noncompliance to the imposition of fines or, in extreme cases, the revocation of the license to operate held by the financial institution. Additionally, noncompliance with certain rules may result in the compulsory filing of specific adequacy or restructuring plans with the Central Bank. These plans must be approved by the Central Bank in order to permit the financial institution to remain in business.

Banking Regulation and Supervision

Central Bank Supervision

Since September 1994, the Central Bank has supervised the Argentine financial institutions on a consolidated basis. Financial institutions must file periodic consolidated financial statements that reflect the operations of head offices or headquarters as well as those of their branches in Argentina and abroad, and of their significant subsidiaries, whether domestic or foreign. Accordingly, requirements in relation to liquidity and solvency, minimum capital, risk concentration and loan loss provisions, among others, should be calculated on a consolidated basis.

Permitted Activities and Investments

The FIL governs any individuals and entities that engage in financial intermediation transactions and, as such, are part of the financial system, including commercial banks, investment banks, mortgage banks, financial companies, savings and loan companies for residential purposes and credit unions. Except for commercial banks, which are authorized to conduct all financial activities and services that are specifically established by law or by the Central Bank rules, the activities that may be carried out by other Argentine financial institutions are set forth in the FIL and related Central Bank rules.

Some of the activities permitted for commercial banks include the ability to (i) receive deposits from the public in both local and foreign currency; (ii) underwrite, acquire, place or negotiate debt securities, including government securities, in both exchange and over-the-counter markets (subject to prior approval by the CNV, if applicable); (iii) grant and receive loans; (iv) guarantee customers' debts; (v) conduct foreign currency exchange transactions; (vi) issue credit cards; (vii) act, subject to certain conditions, as brokers in real estate transactions; (viii) carry out commercial financing transactions; (ix) act as registrars of mortgage bonds; (x) carry out transactions denominated in foreign currency, and (xi) act as fiduciary in financial trusts. In addition, pursuant to the FIL and Central Bank Communication "A" 3086, as amended, commercial banks are authorized to hold interests in

commercial, industrial, agricultural and other types of companies that do not provide supplemental services to the banking services (as defined by the applicable Central Bank rules) to the extent that the commercial bank's interest in such companies does not exceed 12.5% of its voting stock or its capital stock. However, if the aforementioned limits were to be exceeded, the bank must (i) request Central Bank's authorization, or (ii) give notice of such situation to such authority, as the case may be. However, even when commercial banks' interests do not reach such percentages, they are not allowed to operate such companies if: (i) such interest allows them to control a majority of votes at a shareholders' or board of directors' meeting or, (ii) the Central Bank does not authorize the acquisition.

Furthermore, pursuant to Communication "A" 5700 modified by communication "A" 6304 commercial banks are authorized to hold interests in the capital stock of Argentine or foreign companies that have one or two of the exclusive corporate purposes listed in section 2.2 of Communication "A" 5700, if the commercial bank's interest exceeds 12.5% of such companies' voting stock or allows the commercial bank to control a majority of votes at a shareholders' or board of directors' meeting. If the corporate purposes of such companies include two of the activities listed in section 2.2 of Communication "A" 5700, the authorization of the Central Bank will be required.

Under the Central Bank rules, the total amount of the interests held by a commercial bank in the capital stock of third parties, including interests in Argentine mutual funds, may not exceed 50% of such bank's regulatory capital (*Responsabilidad Patrimonial Computable*, or "RPC"). In addition, the total amount of a commercial bank's investments, taken as a whole, in: (i) unlisted stock, excluding interests in companies that provide services that are supplementary to the finance business and interests in state-owned companies that provide public services, (ii) listed stock and interests in mutual funds that do not give rise to minimum capital requirements on the basis of market risk, and (iii) listed stock that does not have a "largely publicly available market price," is limited to 25% of such bank's RPC. To this effect, a given stock's market price is considered to be "largely publicly available" when daily quotations of significant transactions are available, and the sale of such stock held by the bank would not significantly affect the stock listing.

Prohibited and Restricted Activities

The FIL prohibits commercial banks from: (a) creating liens on their assets without prior approval from the Central Bank, (b) accepting their own shares as security, (c) conducting transactions with their own directors or managers and with related companies or persons under terms that are more favorable than those regularly offered in transactions with their clients, and (d) carrying out commercial, industrial, agricultural or other activities without prior approval of the Central Bank, except those considered financially related activities under the Central Bank rules. Notwithstanding the foregoing, banks may own shares in other financial institutions with the prior approval of the Central Bank as well as shares and notes in utilities' companies, to the extent necessary for the provision of such services.

Liquidity and Solvency Requirements

Legal Reserve

Pursuant to the provisions of the FIL and Central Bank rules, financial institutions are required to allocate on an annual basis to the legal reserve fund a portion of their income which shall be no less than 10% nor more than 20%. This legal reserve can only be used during periods in which a financial institution has incurred losses and has exhausted all other reserves. If a financial institution does not comply with this requirement, it shall not pay dividends to its shareholders. For further information, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Non-liquid Assets

Since February 2004, non-liquid assets (computed on the basis of their closing balance on the last day of each month, and net of those assets that are deducted to compute the regulatory capital) plus the financings granted to parties related to financial institutions (computed on the basis of the highest balance during each month for each client) cannot exceed 100% of the regulatory capital of such financial institution, except for certain particular cases in which it may exceed up to 150%.

Non-liquid assets consist of assets and miscellaneous receivables, furniture and fixtures, assets securing obligations, except for transactions involving swaps, futures and derivative transactions, certain intangible assets and interests in other non-listed companies or listed shares of stock, if the interest exceeds 2.5% of the issuing company's equity. Any non-compliance with such requirement will give rise to an increase in minimum capital requirements equivalent to 100% of the excess over the ratio.

Minimum Capital Requirements

The Central Bank requires that financial institutions should have minimum capital amounts based on balances as of each month's end. Such minimum capital amount is defined as the higher value that results from a comparison between (i) the basic requirement and (ii) the sum of credit risk, operational risk and market risk. Financial institutions (together with their branches in Argentina and abroad) must comply with minimum capital requirements both on a stand-alone and on a consolidated basis.

Commercial banks acting as custodians of securities representing investments of the Argentine Integrated Social Security System's Sustainability Guarantee Fund (*Fondo de Garantía de Sustentabilidad del Sistema Integrado Previsional Argentino*) and/or registrar of book-entry mortgage backed notes are required to record a regulatory capital excess in respect of the minimum capital requirement equivalent to 0.25% of the price of securities in custody and/or mortgage backed notes, which shall be kept invested in Argentine government securities or instruments of monetary regulation.

In addition, pursuant to Central Bank Communication "A" 5694, the financial institutions rated as domestic systematically important institutions (*D-SIBs*) are required to comply with an additional capital requirement equivalent to 1% of all risk-weighted assets (*APR*), exclusively out of tier 1 common equity (*COI*), as described below, (currently, APRs result from multiplying minimum capital requirements established by the Central Bank's regulations by 12.5).

	<u>January/June</u>	<u>April/June</u>	<u>July/September</u>	<u>October/December</u>
2016.....	0.075	0.15	0.225	0.3
2017.....	0.375	0.45	0.525	0.6
2018.....	0.675	0.75	0.825	0.9
In and after 2019			1	

The Bank does not qualify as a domestic systemically important institution.

Minimum Basic Capital

The minimum basic capital requirement varies depending on the type of financial institution and the jurisdiction where the head office is located -Ps.26 million for banks in the categories I and II (Ps.12 million for the other institutions in this category), and Ps.15 million for banks in the categories III and IV (Ps.8 million for the other institutions in this category).

<u>Categories</u>	<u>Banks</u>	<u>Other Institutions^(*)</u>
I and II.....	Ps.26 million	Ps.12 million
III and IV.....	Ps.15 million	Ps.8 million

(*) Except for credit institutions.

In addition, institutions with operating offices located at international ports and airports shall meet the requirement for Category I. Financial institutions that are directly engaged in foreign trade transactions shall meet the requirements established for banks in the relevant category.

Notwithstanding the foregoing, the regulatory capital to be held by commercial banks acting as custodians of securities representing investments of the Argentine Integrated Social Security System's Sustainability Guarantee Fund must be equal to or higher than Ps.400 million or the amount equivalent to 1% of the total book value of the securities in custody.

Description of Tier 1 and Tier 2 capital regulations

Argentine financial institutions must comply with guidelines similar to those adopted by the Basel Committee on Banking Supervision, as amended in 1995 (the "Basel Rules"). However, in certain respects, Argentine banking regulations require coefficients that are higher than those prescribed by the Basel Rules.

The Central Bank takes into consideration a financial institution's regulatory capital or RPC in order to determine compliance with capital requirements. Pursuant to Communications "A" 5369 modified by Communication "A" 5580, as amended and supplemented, the RPC consists Tier 1 capital (Basic Net Worth – NWb) and Tier 2 capital (Complementary Net Worth – NWC).

Tier 1 capital consists of (i) tier 1 ordinary capital (COn1), (ii) items deductible from tier 1 ordinary capital (CDCOn1), (iii) tier 1 additional capital (CAAn1), and (iv) items deductible from tier 1 additional capital (CDCAn1).

COn1 consists of (i) capital stock (excluding preferred stock), (ii) non-capitalized contributions (excluding share premium), (iii) adjustments to shareholders' equity, (iv) earnings reserves (excluding the special reserve for debt instruments), (v) unappropriated retained earnings, (vi) other results either positive or negative, subject to the following terms and proportions:

- with respect to results at prior fiscal years, 100% of net earnings or losses recorded until the last quarterly financial statements with limited auditor's report, for the last full fiscal year and in respect of which the auditor has not issued an audit report;
- 100% of net earnings or losses for the current year as of the date of the most recent audited quarterly financial statements;
- 50% of profits or 100% of losses for the most recent audited quarterly or annual financial statements; and
- 100% of losses not reflected in the financial statements, arising from quantification of any facts reported by the auditor; and

(vii) share premiums of the instruments included in COn1, and, in case of consolidated institutions, non-controlling interests (common shares issued by subsidiaries subject to consolidated supervision and belonging to third parties, provided that certain conditions and requirements are met).

For a share of stock to be considered included within COn1, the financial institution must refrain from creating, upon issuance thereof, any expectations that the share of stock will be repurchased, redeemed or amortized, and the contractual terms should not contain any clause that might generate such an expectation.

The deductible items set forth in section 8.4.1 and 8.4.2 (as applicable) of the Central Bank Communication "A" 5580 will be deducted from the foregoing items, if applicable.

Items deductible from COn1 include, among others: (a) positive balances resulting from the application of income tax withholdings above 10% of the basic net worth for the previous month; (b) deposits maintained in a corresponding account with a foreign financial institutions that are not rated as "investment grade," (c) securities not held by the relevant financial institutions, except those registered or held in custody by the Central Bank ("CRYL"), Caja de Valores S.A. or Clearstream, Euroclear and The Depository Trust Company, (d) securities issued by foreign governments whose international risk rating is lower than 'investment grade' pursuant to Communication "A" 5671; (e) debt instruments issued subordinated by contract to the other liabilities and issued by other financial institutions; (f) certain credits related to the application of tax deferrals; (g) shareholders; (h) real property added to the assets of the financial institution and with respect to which the title deed is not duly recorded at the pertinent Argentine real property registry, except where such assets shall have been acquired in a court-ordered auction sale; (i) goodwill; (j) organization and development costs; (k) items pending allocation, debtor balances and other; (l) the amounts of certain assets, as required by the Financial Superintendency resulting from differences between carry amount and the fair value of assets or actions taken to distort or disguise the true nature or scope of operations; (m) any deficiency relating to the minimum loan loss provisions required by the Financial Superintendency; (n) equity interests in companies whose corporate purposes consist of the following activities: (i) financial assistance through leasing or factoring agreements, (ii) transitory equity acquisitions in other companies in order to further their development to the extent the ultimate purpose is selling such interest after development is accomplished and (iii) the issuance of credit or debit cards as provided by Communication "A" 5700; (o) excess in the granting of asset-backed guaranties, according to Central Bank's regulations; (p) the highest balance of that month's financial assistance to the public sector, when certain conditions are met; (q) earnings from sales related to securitizations under certain circumstances; (r) gains and losses related to derivate transactions due to changes in the credit risk of the financial institution; (s) liabilities from derivatives under certain circumstances and (t) equity interests in other Argentine or foreign institutions subject to a consolidated supervision.

Tier 1 additional capital (CAAn1) includes certain debt instruments issued by the financial institutions which comply with the requirements set forth in section 8.3.2 of Communication "A" 5580 issued by the Central Bank (as amended and supplemented) and not already included in COn1, and share premiums resulting from instruments

included in CAn1. Furthermore, in cases of consolidated institutions, it includes instruments issued by subsidiaries subject to a consolidated supervision and held by third parties, pursuant to applicable regulatory requirements.

In addition, debt instruments included under CAn1 should comply with the following requirements:

- Must be totally subscribed and paid in full.
- Subordinated to depositors, unsecured creditors and to the subordinated debt of the financial entity. The instruments must contemplate that in case of the entity's bankruptcy and once all debts with all the other creditors are satisfied, its creditors shall have priority in the distributions of funds only and exclusively with respect to the shareholders (irrespective of their class), with the express waiver of any general or special privilege.
- Must not be insured or guaranteed by the issuer or a related entity, and with no agreement improving, either legally or economically, the payment priority in case of the entity's bankruptcy.
- They shall not contemplate any type of capital payment, except in case of liquidation of the financial institution. Provisions gradually increasing remuneration or other incentives for anticipated amortization are not allowed.
- After 5 years as from the issuance date, the financial institution can buy back the instruments if: (i) it has the previous authorization of the Financial Superintendency, (ii) the entity does not create any expectations regarding the exercise of the purchase option, and (c) the debt instrument is replaced by an RPC of equal or greater value sustained by its revenue capacity, or if it is demonstrated that once the purchase option is exercised its RPC significantly exceeds at least by 20% of the minimum capital requirements.
- Any capital repayment requires previous authorization from the Financial Superintendency. In this sense, the financial entity must not create any market expectations regarding the granting of such authorization.
- The financial entity may at any time and at its own discretion pay dividends or interest coupons. They should not provide for a dividend/interest coupon that is readjusted from time to time based on the credit risk of the financial institution.
- They should not have been bought by the financial entity or any other entity over which the financial entity has control or significant influence.
- They should not have been bought with direct or indirect financing from the financial entity and they shall not contain elements that make re-capitalization difficult.

Instruments considered as liabilities must absorb losses once a pre-established triggering event takes place, through their conversion into common shares and a mechanism assigning losses to the instrument. Tier 2 capital includes the following items (i) certain debt instruments issued by financial institutions which are not included in Tier 1 capital, and meet the regulatory requirements established in section 8.3.3 of Communication "A" 5580 (as amended and supplemented) issued by the Central Bank, (ii) share premium from instruments included in Tier 2 capital, and (iii) loan loss provisions on the loan portfolio of debtors classified as being in a "normal situation" pursuant to the Central Bank regulations on "Debtor classification" and of financing with preferred security "A" not exceeding 1.25% of the assets measured for credit risk. Additionally, in cases of consolidated institutions, it includes (iv) debt instruments issued by subsidiaries subject to a consolidated supervision and belonging to third parties, if they meet the criteria in order to be included under complementary net worth.

The above-mentioned items will be considered minus deductible items pursuant to section 8.4.2 of Communication "A" 5580 (as amended and supplemented) issued by the Central Bank, as described below.

Moreover, debt instruments included under the complementary net worth must comply with the following requirements:

- Must be totally subscribed and paid in full.
- Subordinated to depositors, unsecured creditors and subordinated debt of the financial institution.

- Must not be insured or guaranteed by the issuer or a related entity, and with no agreement improving either legally or economically the payment priority in case of the entity's bankruptcy.
- Maturity: (i) original maturity date within no less than 5 years, (ii) clauses considering gradually increasing remuneration or other incentives for anticipated amortization are not allowed, and (iii) from the beginning of the last five years of life of the indebtedness, the computable amount will be diminished by 20% of its nominal issuance value. After five years as from the issuance date, the financial entity can buy back the debt instruments with the previous authorization of the Financial Superintendency, and if the entity does not create any expectations regarding the exercise of the purchase option. The instrument must be replaced with an RPC of equal or greater value sustained by its revenue capacity, or if it is demonstrated that once the purchase option is exercised its RPC significantly exceeds at least in a 20% of the minimum capital requirements.
- The investor shall not be entitled to accelerate the repayment of future projected payments, except in the case of bankruptcy or liquidation.
- They cannot incorporate dividends/ interest coupon with periodic adjustments linked to the financial institution's credit risk.
- They should not have been bought by the financial entity or any other entity over which the financial entity has control or significant influence.
- They should not have been bought with direct or indirect financing from the financial entity.

Additionally, instruments included in Tier 2 capital and CAn1, shall meet the following additional requirements in order to assure their loss-absorbency capacity:

- a) Their terms and conditions must include a provision pursuant to which the instruments must absorb losses either through a release on debt or its conversion into ordinary capital – once a triggering event has occurred, as described below.
- b) If the holders receive compensation for the debt release performed, it should be carried out immediately and only with common shares, pursuant to applicable regulations.
- c) The financial institution must have been granted the authorization required for the immediate issuance of the corresponding common shares, in case a triggering event takes place, as described below.

The triggering events that will give rise to application of the foregoing provision are listed below: (i) solvency or liquidity of the financial institution is affected and the Central Banks rejects the regularization plan or revokes its authorization to operate or authorizes restructuring protecting depositors (whatever happens first); or (ii) the decision to capitalize the financial entity with public funds.

The Bank has issued three series of subordinated notes, all of which are outstanding as of the date of this offering memorandum. The series issued in 2013 and 2014 meet the requirements described above. However, the series issued in November 2010 fails to meet such requirements as it was issued prior to adoption of Communication "A" 5580 modified by Communication "A" 6327 by the Central Bank. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Funding".

Further criteria should be met regarding the computable items included in the RPC calculation pursuant to the regulatory requirements of minority shareholdings and other computable instruments issued by subsidiaries subject to consolidated supervision by third parties. A minority shareholding may be included in COn1 of the financial entity if the original instrument complies with the requirements established for its qualification as common shares regarding the RPC.

Deductible items applicable to the different capital tiers are as follows:

Investments in computable instruments under the financial entity's RPC are not subject to consolidated supervision when the entity owns up to 10% of the issuer's ordinary capital according to the following criteria: (i) investments include direct, indirect or synthetic interests; (ii) investments include the acquired net position; (iii) securities subscribed for to be placed within 5 business days may not be included. When interests in other financial institution's equity -individually representing less than 10% of each issuer's COn1- exceed 10% of the

financial institution's COn1, net of the relevant deductions, the amount above said 10% must be deducted from each one of the capital levels according to the following methodology:

- Amount to be deducted from COn1: the amount exceeding the 10% multiplied by the proportion of the holdings of COn1 over total equity interests.
- Amount to be deducted from CAn1: the amount exceeding the 10% multiplied by the proportion of the holdings of CAn1 over the total equity interests.
- Amount to be deducted from the complementary net worth: the amount exceeding the 10% multiplied by the proportion of the holdings of the complementary net worth over the total equity interests.

Investments in computable instruments under the financial institutions' RPC are not subject to consolidated supervision, when the entity owns up to 10% of the issuer's ordinary capital or when the issuer is a subsidiary of financial entity according to the following criteria: (i) investments include direct, indirect or synthetic interests; (ii) investments include the acquired net position; and (iii) securities subscribed for to be placed within 5 business days may not be included.

Limitations

Central Bank Communication "A" 5580 modified by Communication "A" 6327 (as amended and supplemented) establishes minimum thresholds regarding the capital payment: (i) for COn1 the amount resulting from multiplying 4.5% by the capital risk weighted assets (*activos ponderados por riesgos*, or "APR," as for its acronym in Spanish language); (ii) for the basic net worth, the amount resulting from multiplying 6% by the APR and (iii) for the RPC the amount resulting from multiplying 8% by the APR. Risk weighted assets (APR) means the amount resulting from multiplying by 12.5 the minimum capital requirement, pursuant to the Central Bank's regulations. The lack of compliance with any of these limitations is considered as an infringement to minimum capital payment requirements.

Pursuant to Communication "A" 5867 modified by Communication "A" 5889, APRs will result from application of the following formula:

$$APR = APRc + [(RM+RO) \times 12.5]$$

where,

"APRc" means credit risk weighted assets.

"RM" means market risk requirement.

"RO" operational risk requirement.

Economic Capital

Central Bank Communication "A" 5398 modified by Communication "A" 6327 sets forth that it is of utmost importance that financial institutions have an integrated global internal process in place to assess the adequacy of their economic capital based on their risk profile (the "Internal Capital Adequacy Assessment Process" or "ICAAP") as well as a strategy aiming to maintain their regulatory capital. If as a result of this internal process, it is found that the regulatory capital is insufficient, financial institutions must increase it based on their own estimates to comply with regulations.

The economic capital of financial institutions is the amount of capital required to pay not only unexpected losses arising from exposure to credit, operational and market risks, but also those arising from other risks to which the financial institution may be exposed.

Financial institutions must demonstrate that their internal capital targets are well funded and adequate to their general risk profile and operations. The ICAAP should take into consideration all the material risks to which the institution is exposed. To such end, institutions must define an integral process for the management of at least credit, operational, market, interest rate, liquidity, securitization, graduation, reputational and strategic risks, using stress tests to assess potential adverse scenarios that may affect their regulatory capital.

The ICAAP must include stress tests supplementing and validating any other quantitative or qualitative approach employed by the institution in order to provide the board of directors and management with a deeper understanding of the interaction among the various types of risk under stress conditions. In addition, the ICAAP

must consider the short- and long-term capital needs and ensure the prudent accumulation of excess capital during positive periods of the economic cycle.

The required amount of capital of each institution shall be determined based on its risk profile, taking into consideration other external factors such as the effects of the economic cycle and the economic scenario.

Requirements applicable to dividend distributions

The Central Bank imposed restrictions on the payment of dividends, limiting the ability of financial institutions to distribute such dividends without its prior consent.

Pursuant to Communications “A” 5827 and 6013, the Central Bank amended and restated its regulations regarding dividend distribution by financial institutions. According to such regulation, the Financial Superintendency will review the ability of a financial institution to distribute dividends upon the institution’s request for its approval. The request must be filed within 30 business days prior to the shareholders’ meeting that will approve the institution’s annual financial statements. The Financial Superintendency may authorize the distribution of dividends provided that the following conditions are met during the month preceding the submission of the request for authorization before the Financial Superintendency:

- (i) the financial institution is not subject to a liquidation procedure or the mandatory transfer of assets at the request of the Central Bank pursuant to Sections 34 or 35 bis of the FIL;
- (ii) the financial institution is not receiving financial assistance from the Central Bank;
- (iii) the financial institution is not in arrears or in breach of the reporting requirements established by the Central Bank;
- (iv) the financial institution is in compliance with minimum capital requirements (both on a stand-alone and consolidated basis and without computing for such purposes the effects of the individual deductibles granted by the Financial Superintendency) or minimum cash reserves (on average) in Pesos, foreign currency or government securities; and
- (v) the financial institution is not liable to pay fines in excess of 25% (twenty-five percent) of the latest reported regulatory capital requirement or penalties involving disqualification, suspension, prohibition or revocation imposed in the last five (5) years by the Central Bank, the Financial Information Unit (UIF, as per the Spanish acronym), the Securities Exchange Commission (CNV) and/or the Argentine Insurance Superintendency (SSN) deemed to be significant, except when corrective measures have been implemented to the satisfaction of the Financial Superintendency, upon consultation, if applicable, with the entity that imposed the penalty subject to assessment. The Financial Superintendency will also consider the information and/or penalties communicated by foreign agencies or authorities with similar powers. In order to weigh the significance of the penalties, the type, reason and amount of the imposed penalty will be taken into account, as well as the extent of participation in the events, any potential alteration of the economic order, the existence of damages to third parties, any resulting profits earned by the person on whom the penalty was imposed, the volume of operations, regulatory capital and the office or position discharged by the individuals so involved.

In addition, certain situations such as failure to meet minimum capital requirements or failure to pay the principal or interest on outstanding subordinated notes (*Level 2*) of the Bank may result in the Issuer’s inability to distribute dividends to its shareholders.

Financial institutions that meet all of the foregoing requirements may distribute dividends up to an amount equal to (i) the positive balance of the account “Unappropriated retained earnings” as of the fiscal year end, plus (ii) the optional reserve for payment of future dividends, less (iii) mandatory reserves and other items, such as: (a) balance recorded in relation to payments made under court rulings of pesification; (b) the net positive balance of the book value and market value of certain government debt securities and notes issued by the Central Bank and held by the financial institution, which are not directed to the market; (c) non-recorded adjustments to the value of assets reported by the Financial Superintendency or mentioned by auditors in their reports; (d) individual exemptions related to the valuation of assets issued by the Financial Superintendency; (e) balance of court-mandated deposits denominated in foreign currency and the book value of such deposits pursuant to Law No. 25,561 and Decree No.

214/02; and (f) net amounts related to losses resulting from application of the rules on valuation of securities issued by the non-financial public sector and the monetary rules of the Central Bank.

Dividends shall not be paid in any of the following events:

- if the minimum cash payment were on average lower than the requirement for the last closed position or the position projected after making the payment of dividends; and/or
- if the financial institution fails to meet the Additional Capital Margin requirements (as defined below).

In addition, for financial institutions that are branches of foreign entities, the Financial Superintendency will also take into account the liquidity and solvency of headquarters and the markets in which they operate.

Pursuant to Communication “A” 5580 modified by Communication “A” 6327 issued by the Central Bank, the minimum regulatory capital requirement based on the counterparty’s credit risk due to securitizations shall be computed on all transactions in effect as of the computation date.

Communication “A” 5689, dated January 8, 2015, issued by the Central Bank, sets forth that financial institutions shall make an accounting entry of and provide information about any administrative and/or disciplinary penalties, and adverse criminal judgments passed by first instance courts, which were imposed or filed by the Central Bank of the Argentine Republic, the Financial Information Unit, the Argentine Securities Commission and the Argentine Superintendency of Insurance. Beginning in January 2015, the amount of the accounting entry shall include all of the penalties and a provision must be made for 100% of each penalty for which the institution is liable. Such items must be maintained until payment is made or a final judgment is passed. Pursuant to Central Bank Communication “A” 5707, as amended by Central Bank Communication “A” 5827, if a dividend is distributed, such amount will be also deducted from the distributable amount. In April 2016, the Central Bank issued Communication “A” 5940, which amended the provisions of Communication “A” 5689. Pursuant to such Communication, financial institutions that as of the date of issuance show balances in respect of such items recorded in the account “Provisions – For administrative and/or disciplinary sanctions and criminal penalties,” shall assess, based on current legal reports, whether the conditions for total or partial accounting thereof are met in respect of such sanctions and penalties, in accordance with the provisions of the Accounts Plan and Manual (i.e., they should be likely to be enforced and the amount should be reasonably estimated).

In January 2015, Central Bank Communication “A” 5694 further established that the financial institutions qualified as domestic systematically important institutions (*D-SIB*) are required to comply with an additional minimum capital requirement equivalent to 1% of all risk-weighted assets (*APR*), exclusively out of tier 1 ordinary capital (*CO₁*) in accordance with the schedule described in “—Liquidity and solvency requirements— Requirements applicable to dividend distributions” (currently, *APRs* result from multiplying minimum capital requirements pursuant to the Central Bank regulations by 12.5). Pursuant to Central Bank Communication “A” 5707, as amended by Central Bank Communication “A” 5827, if a dividend is distributed, such amount will be also deducted from the distributable amount.

Pursuant to Central Bank Communication “A” 5827, beginning on January 1, 2016, financial institutions are required to set up capital margins in addition to minimum capital requirements so as to accumulate their own resources to be used in the event of losses, thus minimizing the risk of non-compliance with such requirement. The greater the utilization of the margin, the greater the percentage of earnings that financial institutions must retain to restore such margin. The capital conservation margin shall be 2.5% of the amount of risk weighted assets (*APRs*), in addition to the minimum capital requirement. In cases of financial institutions qualified as systemically important, the capital conservation margin will be 3.5% of *APR* (the “Additional Capital Margins”). The increased capital conservation margin, if applicable, for institutions qualified as systemically important shall be exclusively paid out of tier one ordinary capital (*CO₁*), net of deductible capital (*CD_{CO₁}*).

Distribution of earnings shall be limited where the level and composition of the regulatory capital of financial institutions -in spite of meeting the minimum capital requirement-, makes them fall within the range of the capital conservation margin. This limitation applies to the distribution of earnings only but not to the institution’s operations. The institutions may continue doing business where the level of *CO₁* is within the range of the conservation margin. Where the tier 1 one ordinary capital coefficient -*CO₁*- as a percentage of *APR*- is within the range of the capital conservation margin -as increased in the case of institutions qualified as systemically important-, the restriction on the distribution of earnings will increase as the *CO₁* comes closer to the minimum amount so established (4.5% of *APR*).

The CO_n1 shall be first used to meet the minimum capital requirement of 4.5% of APRs. Subsequently, and if necessary considering that the institution does not have enough additional tier 1 capital (CA_n1) or tier 2 capital (PN_c), the CO_n1 will be also applied to meet the 6% and 8% requirements of tier 1 capital and total capital. Only the remaining balance of CO_n1, if any, may be computed to meet the conservation margin.

The institution that wishes to make a distribution of earnings greater than that permitted under this regime shall finance such distribution by means of new contributions of CO_n1 by the amount in excess of the applicable limit.

Central Bank Communication “A” 5827 further establishes the counter cyclical margin intended to ensure that the capital of financial institutions is consistent with the accumulation of systemic risk associated to an excessive increase in credit and the macro-financial context in general. Pursuant to such Communication, where at the discretion of the Central Bank the credit growth is excessive, thus resulting in an increase in the systemic risk, it may establish -upon prior notice up to 12 months in advance – the obligation to set up the counter cyclical margin in the range between 0% and 2.5% of the risk weighted assets. In addition, the Central Bank may order a reduction or release thereof if in its opinion such systemic risk has been materialized or diminished.

Financial institutions doing business at the international level must contemplate the geographic location of their credit exposures with residents of the country and foreign countries in the private sector and calculate the required level of counter cyclical capital margin as the weighted mean of the margins required in the jurisdictions where they have some exposure. For weighing purposes, the credit exposures include all those to the private sector subject to capital requirement based on credit risk, further including those falling within the trading portfolio. In order to determine the jurisdiction to which each exposure should be allocated, financial institutions shall apply, where possible, the principle of ultimate risk.

The requirement established for the counter cyclical margin will be observed through an increase in the capital conservation margin and shall be exclusively paid out of tier 1 ordinary capital (CO_n1), net of deductible items (CDCO_n1).

Credit Risk

The minimum capital requirement in relation to the counterparty (“CRC”) risk must be calculated by dividing the sum of each item’s daily balance by the number of days corresponding to the month. The capital requirement due to counterparty credit risk will be determined as follows:

$$CRC = k * (0.08 * APR_c) + INC.$$

The “k” variable is the factor related to the rating (1 the highest, 5 the lowest) assigned to the financial institution by the Financial Superintendency, based on the following scale:

Rating	K Factor
1	1
2	1.03
3	1.08
4	1.13
5	1.19

“APR_c” means credit risk weighted assets calculated by adding the values obtained from applying the following formula:

$A \times p + PFB \times CCF \times p + no \ DvP + (DVP + RCD + INC \ (fractioning)) \times 12.5$. Variable “A” represents computable assets, “PFB” means computable items not recorded in the balance sheet (“off-balance sheet items”), CCF means the credit conversion factor and p is the risk weighting factor.

On the other hand, “no DvP” means transactions without delivery vs payment; DvP means failed delivery vs payment transactions; “RCD” means the requirement due to counterparty credit risk in over-the-counter transactions (“OTC”).

The “INC” variable represents requirements for increase in the minimum capital due to excesses in other technical ratios (for example, in the ratio of fixed assets, fractioning and credit risk rating and limitations on transactions with related customers), and the credit exposure resulting from the sum of positions not hedged by contracts to hedge against changes in the prices of commodities.

Pursuant to Communication “A” 6128, effective as from January 1, 2017, the minimum capital requirement based on credit risk will be determined by application of the following formula:

$$CRC = (k \times 0.08 \times APRc) + INC$$

where:

“k”: factor determined by the rating (1 the strongest and 5 the weakest) assigned to the financial institution by the Financial Superintendency, taking the following scale into account:

Rating	K Factor
1	1
2	1.03
3	1.08
4	1.13
5	1.19

For capital requirement calculation purposes, the rating will be such applicable to the third month next succeeding such month of the most recent rating reported to the financial institution. If not reported, the “k” value will be equal to 1.03.

APRc: credit risk weighted assets, calculated by adding the following items:

$$A \times p + PFB \times CCF \times p + no \text{ DvP} + (DVP + RCD + INC \text{ (fractioning)}) \times 12.5, \text{ where:}$$

“A”: computable assets/exposures.

“PFB”: computable items which are not recorded on the balance sheet (off-balance sheet items), whether or not recorded in memorandum accounts.

“CCF”: credit conversion factor.

“p”: risk weighting factor, expressed as a decimal.

“no DvP”: transactions without delivery vs payment. Amount determined by adding the values resulting from applying to the included transactions the relevant risk weighting factor (p).

“DvP”: failed delivery vs. payment transactions (for purposes of these rules, it includes failed payment vs payment transactions -PvP-). This amount is determined by adding the values resulting from multiplying current positive exposure by the applicable capital requirement.

“RCD”: counterparty credit risk requirement in OTC transactions involving derivatives.

“INC_(fractioning)”: increase if the following limits are exceeded:

- interest in the company’s capital: 15%;
- total interests in the capital of companies: 60%.

Maximum limits will be applied on the regulatory capital of the financial institution for the last day prior to the applicable date, as set forth in the rules on “Credit Risk Fractioning”.

“INC”: increase due to excesses in the ratio of fixed assets and other items; the limits set in the rules on “Credit Risk Fractioning”; and the limits on credit rating.

Each type of asset is weighted based on the level of risk assumed that will be associated with it. In broader terms, weighting factor assigned to different types of assets are the following:

Type of Asset	Weighting Factor (%)
<i>Cash and cash equivalents</i>	
Cash at hand, in transit (when the financial institution assumes responsibility for and risk of transportation), in ATMs, in checking accounts and special accounts held with the Central Bank, gold coins or bars.....	0
Cash items pending receipt, cash in transit companies and cash in custody in financial institutions.	20
<i>Exposure to governments and central banks</i>	
To the Central Bank in Pesos, where the source of funds is denominated in such currency.	0
To non-financial public sector in Pesos, where the source of funds is denominated in such currency, including securitized transactions.	0
To the non-financial public sector as a result of loans to social security beneficiaries or government employees (with discount code).	0
To the non-financial public sector and the Central Bank. Other.	100
To other sovereign states (or central banks) and other entities of the non-financial public sector of such states.	100
To the Bank of International Settlements, to the International Monetary Fund, to the Central European Bank and the European Community.	0
<i>Exposures to Multilateral Development Banks (MDB)</i>	
Exposure to the following entities: International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), Inter-American Development Bank (IDB), European Investment Bank (EIB), Asian Development Bank (ADB), African Development Bank (ADB), European Investment Fund (EIF), Nordic Investment Bank (NIB), Caribbean Development Bank (CDB), Islamic Development Bank (IDB) and The Council of Europe Development Bank (CEB).	0
Other.	100
<i>Exposure to domestic financial institutions.</i>	
Exposures denominated in Pesos -the source of funds of which is denominated in such currency – as a result of transactions the original contractual term of which is up to 3 months.	20
Other.	100
<i>Exposure to foreign financial institutions.</i>	
<i>Exposure to foreign and domestic companies and other legal entities -including foreign exchange entities, insurers, stock exchange entities and companies in the country eligible for treatment as non-financial private sector category based on Section 1 of the rules on “Loans to the non-financial public sector”.</i>	
	100
<i>Exposures included in the retail portfolio.</i>	
Lending to individuals (where total installments under loans from the institution do not exceed, at the time of the agreements, thirty percent (30%) of the borrower’s income and to Small- and Medium-Sized Businesses (“MiPyMEs”).	75
Other.	100
<i>Exposures guaranteed by public reciprocal guarantee companies registered with the relevant Registries in the Central Bank</i>	
	50
<i>Loans secured by first priority mortgages, irrespective of the order of priority provided that the institution is the creditor at all levels, on dwellings.</i>	
With regard to credit support not in excess of 75% of the appraisal value of the property	
- Single family dwelling for permanent occupation.	35
- Other.	50
On the amount exceeding 75% of the appraisal value of such properties.	100
<i>Loans secured by first priority mortgages, irrespective of the order of priority provided that the institution is the creditor at all levels, on property other than dwellings.</i>	
Up to the amount equivalent to the lesser of 50% of the property market value or 60% of the mortgage-backed loan.	50
On the remaining balance of the loan.	100
Loans more than 90 days overdue.	
The weighting factor varies depending on the loan and the special provisions.....	50—150
Interests in the capital of companies.....	150
<i>Exposures to central counterparty institutions (CCP)</i>	0
<i>Other off-balance sheet assets and/or items</i>	100

Minimum capital requirements also depend on the CAMELBIG rating (1 best, 5 worst) assigned by the Financial Superintendency, which also determines the “k” coefficient value. This rating system complies with international standards and provides a broad definition of the performance, risks and perspectives of the institutions. Financial institutions must adjust their capital requirements based on the following “k” factors:

CAMELBIG Rating	K Factor
1	1.00
2	1.03
3	1.08
4	1.13
5	1.19

Excluded items include: (a) securities granted for the benefit of the Central Bank and for direct obligations; (b) items required to be deducted for purposes of computation of the regulatory capital (RPC); and (c) loans and guarantees, sureties and other liabilities furnished by domestic branches and subsidiaries of foreign financial institutions by order and on account of their headquarters or foreign branches or the parent entity, provided that the following requirements are met: (i) the foreign institution must have an international risk rating falling in the investment grade category, (ii) the foreign institution shall be subject to regulations that encompass supervision on a consolidated basis of domestic branches or subsidiaries, (iii) in the event of loans, they shall be served by the domestic branches or subsidiaries exclusively out of funds from the lines assigned thereto by the aforementioned foreign intermediaries; and (iv) in case of guarantees granted locally, there must be counter-guarantees furnished by the headquarters or foreign branches or the foreign parent entity, which may be enforced without restriction upon request of the domestic branch or subsidiary and immediately upon potential enforcement by the beneficiary.

Interest rate risk

Until January 1, 2013, financial institutions were under a duty to satisfy minimum capital requirements for interest rate risk. These requirements aim at reflecting assets and liabilities sensitivity to variations in interest rates. Argentina’s Central Bank Communication “A” 5369 suppressed all these minimum capital requirements. Notwithstanding this change, financial institutions are still under a duty to calculate interest rate risk and are subject to supervision by the Financial Superintendency.

Market Risk

Minimum capital requirements for market risk are imposed in proportion to the market risk inherent in institutions’ portfolios measured on the basis of their VaR. This rule includes those assets that are habitually listed on the markets and excludes the assets held in investment accounts as these must satisfy minimum capital requirements for counterparty credit risk and for interest rate risk.

Five categories of assets are defined. National assets are divided into shares and government bonds/debt instruments issued by the Central Bank which are in turn classified into two zones according to whether their average life (“*modified duration*”) is below or above 2.5 years. Foreign shares and bonds represent a further two categories: bonds are also classified according to their average life and are then subdivided into two zones, defined in the same manner as for national assets. The fifth category is made up by positions in foreign currency, with the applicable distinctions according to the type of currency involved.

Total capital requirement for market risk is the sum of the five amounts of capital necessary to cover the risk valued in each category of assets.

Capital requirement for market risk must be satisfied on a daily basis. The Central Bank is informed on a monthly basis. As of May 2003, the calculation of minimum capital requirements for Market Risk includes US Dollars as a foreign currency in order to calculate the capital for market risk; such calculation takes into consideration all the assets and liabilities in said currency.

Pursuant to Communication “A” 5867, which came into force as from March 1, 2016, market risk shall be defined as the possibility of sustaining losses in positions carried on the balance sheet as well as in off-balance sheet positions by reason of adverse fluctuations in market prices. Capital requirements for Market Risk shall be the arithmetic sum of the capital requirements for interest rate risk; shares, foreign exchange rates and options. In making this determination, institutions must resort to a “Standard Measurement Method” based on a sum of components that separately capture specific risk and general market risk for the positions in securities.

General. The risks subject to the above-described capital requirement are: the risks in instrument positions -securities and derivatives- booked in the “held for trading” portfolio and the risks in the foreign exchange denominated positions allocated either to the “held for investment” or “held for trading” portfolio. For purposes of such allocation, the “held for trading” portfolio of the institutions consists of positions in financial instruments that are considered to form part of the entity’s equity in order for them to be traded or to be applied to hedges of other portfolio components. Pursuant to the new regulations, a financial instrument may be computed as “held for trading” -for purposes of market-risk capital requirements- if it is apt to be traded unrestrictedly or if the possibility exists of obtaining a total hedge for the instrument. Additionally, the portfolio must be managed actively and positions must be valued on a daily basis and with adequate accuracy. The positions held for trading purposes are those held for sale in the short term or in order to obtain benefits from short-term price fluctuations, either actual or expected, or through price arbitrage. They include the positions that entities retain for themselves and those that they acquire as a result of services rendered to customers or “market creation”. The institutions must calculate counterparty credit risk capital requirements inherent in OTC transactions involving derivatives and in “Securities Financing Transactions” -SFT- as would be the case of Repo Agreements, which are booked in the “held-for-trading” portfolio separately and in addition to the calculation of general market risk capital requirements specific underlying asset risk capital requirement. In this respect, they must apply the methods and weighing factors that apply when these transactions are booked in the investment portfolio. Institutions must rely on clearly defined policies and procedures to determine which exposures to include or exclude from the portfolio held for trading in order to calculate their minimum capital requirement for market risk. The investment portfolio, in turn, shall be made up by the positions in the remaining instruments that are not a part of the held-for-trading portfolio.

Minimum capital requirements for foreign exchange rate risk shall apply to the total position in each foreign currency. Minimum capital requirements for securities shall be computed in connection with the instruments charged to the portfolio held for trading, which should be prudently valued (that is to say, at market prices -”marked to market”- or “marked to model”-). Instruments whose yield is determined on a CER basis must be considered at a fixed interest rate. Without prejudice to their being booked in the held-for-trading portfolio or in the investment portfolio, the items that should be deducted upon calculating RPC shall be excluded from the calculation of minimum capital requirements for market risk.

Capital requirement for interest rate risk: Minimum capital requirements for Interest rate risk must be calculated in connection with debt securities and other instruments charged to the held-for-trading portfolio including non-convertible preferred shares. The minimum capital requirement is calculated through the summation of two separate requirements: one for the specific risk of each instrument, either in the case of a sold or bought position and the other in connection with the general market risk -associated to the effect on the portfolio of changes in interest rate-, where positions that are bought and sold in different instruments could be offset.

Capital requirement for equity position risk. The minimum capital requirement to cover the risk of holding positions in equities in the trading book spans the positions bought and sold in ordinary shares, convertible debt securities that act as shares and the commitments to acquire or sell equities as well as all other instrument that has a market behavior similar to that of shares to the exclusion of non-convertible preferred shares, which shall be subject to the minimum capital requirement for interest rate described in the preceding paragraph. Long and short positions in the same issue may be reported on a net basis.

Capital requirement for foreign exchange rate risk. Minimum capital requirements for foreign exchange rate risk shall lay down the minimum capital necessary to cover the risk of holding positions in each foreign currency, including gold. To calculate the capital requirement for foreign exchange rate risk, the institution first needs to quantify its exposure in each currency and then it must estimate the risks inherent in the combination of long and short positions in the different currencies.

Capital requirement for option position risk. The calculation of the capital requirement for option position risk shall depend on whether the institution only buys options -and in so far as market value for all the options in portfolio does not exceed 5% of regulatory capital for the previous month or whose short positions in options are covered by long positions in options subject to exactly the same contractual conditions, which may use the simplified method set forth in the rules whilst in all other cases, institutions must use the alternative method (“delta-plus”) also set forth in the rules.

Communication “A” 5867 coming into force March 1, 2016 and until August 31, 2016, financial institutions must calculate the capital requirement for market risk on an off-balance sheet basis, in conformity with

the methodology in force as of December 30, 2015 and consider, in order to determine minimum capital requirements, the minimum capital requirement for market risk that yields the larger amount.

Consequences of failure to satisfy minimum capital requirements

If a financial institution fails to satisfy minimum capital requirements, the Central Bank Communication “A” 3171 lays down as follows:

- (i) *Failure to satisfy minimum capital requirements reported by the institutions:* the institution must satisfy the requirement no later than the second month following the month when such failure to comply takes place, or submit a plan regularization and turnaround plan within 30 calendar days following the last day of the month in which the non-compliance had been verified. Besides, failure to satisfy minimum capital requirements will entail a series of consequences to the financial institution, including a prohibition against the establishment of affiliates in Argentina and abroad, representative offices abroad or holding an ownership interest in financial institutions abroad as well as the prohibition against the distribution of cash dividends. Besides, the Financial Superintendency may appoint an observer vested with the powers set forth by the Law of Financial Institutions.
- (ii) *Failure to satisfy minimum capital requirements identified by the Financial Superintendency:* the institution shall be conceded 30 calendar days counted as from the moment it is notified of the finding by the Financial Superintendency in order to state its defenses. Where the institution fails to state its defenses or if the defense raised is dismissed, failure to comply shall be considered to be final and the procedure laid down in paragraph (i) shall be enforced.

Additionally, pursuant to Communication “A” 5282 of the Central Bank, failure to satisfy in full a daily minimum capital requirement for market risk, except for that corresponding to the last day of the month, which failure should have stemmed from computing the requirement based on the aggregate of the VaR of the assets spanned by the requirement (or stemming from computing the minimum capital requirements for interest rate, foreign exchange rate and equities position risk), the financial institution must replenish capital and/or reduce its positions in financial assets up and until the satisfaction of the requirement established. To this end, the financial institution shall have a term of ten business days counted as from the first failure to satisfy the daily requirement in full. Should such failure to satisfy the minimum capital requirement persist for a term in excess of ten business days, the institution shall be obligated to submit a plan for regularization and turnaround within the following five business days and the institution might be subject to an administrative proceeding commenced by the Financial Superintendency.

Operational Risk

The regulation on operational risk recognizes the management of operational risk (RO) as a comprehensive practice, separate from that of other risks given its importance. RO is defined as the risk of loss resulting from inadequate and/or failed internal processes, people or systems and/or from external events. The definition includes legal risk but excludes strategic and reputational risk.

Financial institutions must establish a system for RO management that includes policies, processes, procedures and the structures for their adequate management. This framework must also allow the financial institution to assess whether it has sufficient capital.

There are seven types of operational risk events, based on internationally accepted criteria:

- internal fraud,
- external fraud,
- employment practices and workplace safety,
- clients, products and business practice,
- damage to physical assets,
- business disruptions and systems failures, and
- execution, delivery, and process management.

Financial institutions are responsible for implementing an efficient RO management system, in compliance with guidelines laid down by the Central Bank. A solid system for risk management must have a clear assignment of responsibilities within the organization of financial institutions. Thus, the regulation describes the roles of each level of the organization for RO management (such as the roles of the board of directors, general management -or equivalent body- and the business units).

An “RO unit” should be in place in a manner consistent with financial institutions’ size, nature and complexity of its products and processes, and the magnitude of their transactions. It may consist of a single person in charge, if so warranted. This unit may functionally report to the General Management (or equivalent authority) or a functional level with risk management decision-making authority that reports to that Management.

An effective management of this risk will contribute to prevent future losses derived from operational events. Consequently, financial institutions must manage the inherent RO in their relevant products, activities, processes and systems. The RO management process comprises the stages described below.

a) Identification and assessment: for identification purposes, both internal and external factors that could adversely affect process development and projections prepared according to the business strategies defined by the financial institution will be taken into account. Financial institutions will use internal data, and should have a process in place to systematically record frequency, severity, categories and other relevant aspects of the RO loss events. Supplementary tools that institutions should use include self-risk assessments, risk allocation and risk indicators.

b) Follow-up: an efficient follow-up process should be in place in order to easily and rapidly detect and correct potential deficiencies in operational risk management policies, processes and procedures. In addition, changes in metrics that enable finding out about deficiencies and suggesting corrective actions *should* be evaluated.

c) Risk control and mitigation: a system should be in place to ensure compliance with documented internal policies, for which purposes control strategies and operational risk minimization strategies will be reexamined at least on an annual basis, and any adjustment will be made accordingly.

Pursuant to Communication “A” 5282, the minimum capital requirement in relation to operational risk is equal to 15% of the annual average positive gross income for the last 36 months.

The operational risk will be determined by applying the following formula:

$$C_{RO} = \frac{\sum_{t=1}^n \alpha * IB_t}{n}$$

The factors above are defined as follows:

- CRO: capital requirement based on operational risk.
- α : 15%.
- n: number of 12-month periods where the gross income is positive, taking into account the last 36 months prior to the month of calculation. The maximum value of n is 3.
- IBt: gross income for 12-month periods -provided always that it is positive-, for the last 36 months prior to the month of calculation.

IB is defined as the sum of: (a) financial income and income from services less financial expenses and expenses from services, and (b) miscellaneous income less miscellaneous losses.

The following items will be excluded from the accounts referred to in (a) and (b):

- (i) charges resulting from provisions, reversal of provisions created in previous years and receivables recovered in the year which had been written off in previous years;

- (ii) the income(loss) from interests in financial institutions and companies, provided that such items are deductible from the regulatory capital;
- (iii) extraordinary or non-recurrent items (i.e., those generated by extraordinary and exceptional events occurred in the period, which did not usually occur in the past and not expected to occur in the future), including income from collection of insurance compensation (recovery of losses); and
- (iv) income(loss) from the sale of instruments of the financial public sector, established in the Central Bank regulations (“Valuation of debt instruments of the non-financial public sector and monetary regulation instruments of the Central Bank”).

New financial institutions are required to meet -during the first month- a minimum capital requirement based on operational risk equivalent to 10% of the sum of requirements determined by credit and market risks -in this case, for positions on the last day – of such month. From the second to the thirty-sixth month, the monthly requirement shall be equivalent to 10% of average requirements for the months elapsed through the calculation period, resulting from taking into account the risks mentioned in the foregoing paragraph. From the thirty-seventh month, the monthly requirement will be calculated using the operational risk formula.

Minimum Cash Reserve Requirements

The minimum cash reserve requirement requires that a financial institution keep a portion of its deposits or obligations readily available and not allocated to lending transactions. Pursuant to Communication “A” 3498 (as amended and supplemented) dated March 1, 2002, the minimum cash requirement includes deposits and other liabilities arising from financial intermediation (both demand and time-based).

The minimum cash requirement is applicable to demand and time deposits and other liabilities from financial intermediation denominated in Pesos, foreign currency or government and corporate securities, and unused balances of advances in checking accounts under formal agreements that do not contain clauses enabling the institution to provide for the discretionary and unilateral annulment of the potential for use of such margins.

Minimum cash reserve obligations exclude (i) amounts owed to the Central Bank, (ii) amounts owed to domestic financial institutions; (iii) amounts owed to foreign banks (including headquarters, and parent entities of domestic institutions and their branches) in connection with loans intended to finance foreign trade transactions; (iv), cash purchases pending settlement, forward purchases, (v) spot sales to be settled and forward sales, whether or not related to reverse repos; (vi) obligations resulting from foreign facilities with correspondents; and (vii) demand obligations for money orders and transfers from abroad pending settlement provided that the term is not in excess of 72 business hours from deposit.

The liabilities subject to these requirements are computed on the basis of actually settled principal amounts, excluding interest and premium accrued, past due, or to become due on the aforementioned liabilities, provided they were not credited to the account of, or made available to, third parties, and, in the case of fixed-term deposits of UVIs (as defined below), the amount accruing upon the increase in the value of such unit.

The basis on which the minimum cash reserve requirement is computed is the monthly average of the daily balances of the liabilities at the end of each day during each calendar month, except for the period ranging from December in a given year to February in the next year, period in which it shall be applied on a quarterly average basis. Such requirement shall be complied with on a separate basis for each currency in which the liabilities are denominated.

The following table shows the rates based on which the minimum cash requirements will be calculated (beginning in April 2014 for items in Pesos, and beginning on February 1, 2016 for items in foreign currency). In the event of transactions denominated in Pesos, they will depend on the category of the location where the operating office in which they are made is located (Central Bank Communication “A” 6007 modified by Communication “A” 6148, Central Bank Communication “A” 6080 modified by Communication “A” 6305, Central Bank Communication “A” 6148 and Central Bank Communication “A” 6204).

Item	Rates in %			
	Category I		Categories II to VI	
	In Pesos	In foreign currency	In Pesos	In foreign currency
1-Checking account and demand deposits.....	20		18	
2-Savings account, basic account and free universal account.....	20	20	18	25
3-Legal custody accounts, special accounts for savings clubs, “Unemployment Fund for Construction Industry Workers” (<i>Fondo de Cese Laboral para los Trabajadores de la Industria de la Construcción</i>) and “Salary payment,” special checking accounts for legal entities and social security savings accounts.....	20	25	18	25
4-Other demand deposits and liabilities, pension and social security benefits credited by ANSES pending collection and immobilized reserve funds for liabilities covered by these regulations	20	25	18	25
5-Unused balances of advances in checking accounts under executed overdraft agreements.....	20		18	
6-Deposits in checking accounts of non-bank financial institutions, computed for purposes of meeting their required minimum cash reserve.....	100		100	
7-Time deposits, liabilities under “acceptances,” reverse repos -including responsibilities for sale or transfer of credits to agents different from financial institutions, stock-exchange repos, cautions and stock exchange passive repos, constant-term investments, with an option for early termination or for renewal for a specified term and variable income, and other fixed-term liabilities, except rescheduled deposits included in the following items 11, 12, 13 and 14 of this table, based on residual term:				
(i) Up to 29 days.....	14	23	13	23
(ii) From 30 to 59 days	10	17	9	17
(iii) From 60 to 89 days	5	11	4	11
(iv) From 90 to 179 days	1	5	0	5
(v) From 180 days to 365 days	—	2	—	2
(vi) More than 180 days	—	—	—	—
(vii) More than 365 days	—	0	—	0
8-Liabilities owed due to foreign facilities (not executed by means of time deposits or debt securities)	0		0	
9-Debt securities (including notes), based on the residual term.....		0		0
(i) Up to 29 days.....	14	23	14	23
(ii) From 30 to 59 days	10	17	10	17
(iii) From 60 to 89 days	5	11	5	11
(iv) From 90 to 179 days	1	5	1	5
(v) From 180 days to 365 days	—	2	0	2
(vi) More than 180 days	0	—	0	—
(vii) More than 365 days	—	—	—	—
10-Liabilities owing to the Trust Fund for Assistance to Financial and Insurance Institutions	0		0	
11-Demand and time deposits made upon a court order with funds arising from cases pending before the court, and the related immobilized balances	13	15	13	15
12-Deposits -irrespective of the modality- as assets of a mutual fund	20	25	20	25
13-Special deposits related to inflows of funds. Decree 616/2005.....		100		100
14-Time deposits in nominative, non-transferable Peso-denominated certificates, belonging to public sector holders, with the right to demand early withdrawal in less than 30 days from its setting up	16		15	
15- Time deposits and investments in UVAs and UVIs				
(i) Up to 29 days.....	7	—	6	—
(ii) From 30 to 59 days	5	—	4	—
(iii) From 60 to 89 days	3	—	2	—
(iv) More than 90 days	0	—	0	—
16-Time deposits and investments made in the name of minors as a result of funds received gratuitously	0		0	

In addition to the requirements above, the deficiency in application of resources for deposits denominated in foreign currency determined in one month will be computed by an equivalent amount in the calculation of the minimum cash requirement for the currency of such same period.

Payment should be made in the same currency as such of the requirement, for which purposes the following items are eligible:

1. Checking account held by the financial institutions with the Central Bank in Pesos.
2. Minimum cash reserve accounts held by the financial institutions with the Central Bank, in Dollars or in other foreign currencies.
3. Special guarantee accounts for the benefit of electronic clearing houses and to cover settlement of credit card and ATM transactions and immediate transfer of funds.
4. Checking accounts held by non-banking institutions with commercial banks for deposit of the minimum cash requirements.
5. Special checking accounts held with the Central Bank, in relation to compliance with social security benefits by *Administración Nacional de la Seguridad Social (ANSES)*.
6. Minimum cash sub-account 60, authorized in the Registration and Settlement Central for Public Debt and Financial Trusts – CRYL (*Central de Registro y Liquidación de Pasivos Públicos y Fideicomisos Financieros – CRYL*) for government securities and monetary regulation instruments issued by the Central Bank at market value.

These eligible items are subject to review by the Central Bank and may be changed in the future.

Remuneration of the accounts held with the Central Bank in relation to liquidity reserves is only provided up to the amounts of the requirements established for time transactions, and no remuneration is provided for reserves in excess of such requirement.

In cases of compliance with the requirement for time deposits of government securities, such compliance shall be in the form of holdings valued at market price and of the same species, in terms of the monthly position only. Holdings shall be deposited in special accounts authorized by the Central Bank for such purposes.

The minimum cash requirement shall be applied on the monthly average of daily balances of the included liabilities, recorded as of the close of business of each day for each calendar month. Averages will be obtained by dividing the sum of daily balances by the total number of days in each month.

The sum of the balances of eligible items, recorded as of the close of business of each day shall not be lower than 50% of the total minimum cash requirement on any day of the month, excluding the requirement resulting from increase in deposits, determined for the immediately preceding month, as recalculated based on the requirements and items in effect during the month to which the reserves are allocated. Such daily requirement will be equal to 70% if in the preceding computation period, any deficiency was recorded.

Deficient minimum cash in Pesos and deficient minimum daily reserve in Pesos shall be subject to a penalty charge equivalent to twice the Badlar Rate for Private Banks applicable to deposits in Pesos, as reported for the last business day of the relevant period.

Deficient minimum cash in foreign currency and deficient minimum daily reserve are subject to a penalty charge equivalent to the higher of twice the Badlar Rate for Private Banks applicable to deposits in US Dollars or twice the LIBOR rate for 30-day transactions in such currency, as reported for the last business day of the relevant period or the last one available.

Such charges may be reduced as a result of: (i) the granting of financing credit under the Consumer and Production Incentive Program (*Programa de Fomento al Consumo y la Producción*) known as “AHORA 12”, created pursuant to Joint Resolution No. 671 issued by the Ministry of Economy and Public Finance and No. 267 issued by the Ministry of Industry dated September 11, 2014, and (ii) amounts received from *Administración Nacional de la Seguridad Social (ANSES)* in payment of social security obligations. The minimum cash requirement may be increased as a result of deficient financings agreed with clients other than MiPyMEs. Minimum cash requirements in foreign currency may be reduced in the event of a re-issuance of Lebac (Central Bank securities).

Policies of internal liquidity at financial institutions

In accordance with Communication “A” 5693 modified by Communication “A” 6702 and 6330, financial institutions must adopt management and control policies to ensure the availability of reasonable levels of liquidity to efficiently deal, in several alternative scenarios, with their deposits and other financial commitments. These policies must set forth the procedures to be followed in order to assess, sufficiently in advance the institution’s liquidity conditions against the backdrop of the market with the ensuing review of estimates and their adjustment to new scenarios adopting the measures conducive to the elimination of liquidity imbalances or safeguards to anticipate mechanisms to obtain funds at market cost in an amount sufficient to prudently sustain assets subject to longer terms. Along these lines, the factors to be taken into account are (i) the degree to which their liabilities or assets are concentrated on certain customers, (ii) the overall situation of the economy and the market and probable changes, repercussion on the availability of credit lines and (iii) the ability to obtain funds through sales of government securities or through the lending portfolio.

The institution’s governance structure must contemplate a specific unit -or a specific officer- who shall be responsible for managing liquidity and the responsibility level of those who shall be responsible for managing the liquidity coverage ratio (LCR); this in turn shall call for a daily follow-up. This necessarily calls for the involvement and coordination of the highest ranking officer at the institution (for instance, the General Manager).

Besides, a director or another Board member must be designated and he/she will be informed, at least once a week or more often if circumstances so demand, especially when changes in liquidity conditions require new courses of action to safeguard the institution. In the cases of foreign institution branches, it is the highest ranking authority in the country who must be informed.

The officers and directors appointed shall be responsible for managing the liquidity policy which, in addition to a follow-up of the liquidity coverage ratio (LCR), also comprises full satisfaction of minimum capital requirements.

The Financial Superintendency must be furnished with a list of such officers and directors as well as all subsequent changes within ten calendar days from the moment of such changes.

Credit Risk Regulation

Regulations concerning credit risk govern the mechanisms to reduce such risk without significantly eroding average profitability. There are three types of ratios that limit a lending institution’s exposure, as follows: limits on risk concentration, limits on transactions with clients based on the institution’s capital and credit limits based on the client’s net worth.

Risk concentration: these regulations include a definition of risk concentration, namely, the sum of the loans that individually exceed 10% of the institution’s regulatory capital. At no time may risk concentration be higher than:

- three times the institution’s regulatory capital for the previous month without including the extension of credit to local financial institutions;
- five times the institution’s regulatory capital for the previous month, computing all the extension of credit; and/or
- ten times the institution’s regulatory capital for the previous month, for second tier commercial banks when transactions with other financial institutions are computed.

The above-mentioned maximum caps, that is, three and five times, shall be increased to 4 and 6 times the institution’s regulatory capital for the previous month, respectively, in so far as such increases apply to the provision of financial aid to trusts or trust funds belonging to the non-financial public sector.

Financing in excess of 2.5% of the lending institution’s regulatory capital, except for inter-financial transactions, must rely on the opinion of the institution’s highest authorities and the approval of the Board or of an equivalent authority.

Risk Diversification: Financial institutions must see to it that their credit portfolios -in the different funding modalities used- should be diversified amongst the largest possible number of persons or companies and amongst multiple economic activities in a manner such as to avoid risk concentrations caused by transactions with a small

number of persons or companies or persons or companies engaged in a given sector and with the potential to significantly compromise the assets of financial institutions.

Risk Grading: When it comes to limits on financing based on the client's shareholders' equity, the general rule is that total financing may not exceed 100% of clients' regulatory capital. Such basic limit rises by up to 300% when additional aid does not exceed 2.5% of the financial institution's regulatory capital as of the last business day of the second month preceding the date when the financing was granted and has been approved by the relevant institution's Board or equivalent authority.

Credit Margins

The individual maximum limits applicable to unrelated customers in connection with the financial institution's regulatory capital.

The maximum caps on the financial aid applicable to the non-financial public sector are as follows:

Financial aid to the non-financial public sector	Maximum Limit^(*)
i) To the national public sector.....	50%
ii) To each provincial jurisdiction or the Autonomous City of Buenos Aires	10%
iii) To each municipal jurisdiction	3%

(*) *The basic limits imposed shall rise by 15 percentage points in so far as the increases are applied to the grant of financial aid to trusts or trust funds subject to certain conditions and in accordance with the regulations governing financial aid to the public sector or the incorporation of debt instruments issued by them.*

Globally, financial aid to the public sector may not surpass 75% of financial institutions' regulatory capital. As of July 2007, monthly financial aid to the public sector could not surpass 35% of financial institutions' assets.

The maximum caps on the financial aid applicable to the non-financial private sector in Argentina and to the non-financial sector abroad are as follows:

Financial aid to the non-financial private sector in Argentina and to the non-financial sector abroad	Maximum Limit
i) To each borrower	
a) Credit lines without computable guarantees	15%
b) Total credit lines (with or without computable guarantees) and/or secured obligations - including credit lines secured by third parties	25%
ii) To each reciprocal guarantee company (RGC) (even though it may be related) or state-run guarantee fund.....	25%
iii) To each insurance company that grants credits for exporting purposes.....	15%

The maximum caps on the financial aid applicable to the financial sector in Argentina are as follows:

Financing to Argentina's financial sector	Lender	Borrower	
		1, 2 or 3 score	4 or 5 score
i) If the lender is not a second tier commercial bank, to a local financial institution	Rated 1, 2 or 3	25%	25%
	Rated 4 or 5	25%	0%
ii) If the lender is a second tier commercial bank	Rated 1, 2 or 3	100%	100%
	Rated 4 or 5	100%	0%

* *This limit may be divided into two segments, secured and unsecured, in each case, multiplied by 25% subject to the satisfaction of certain requirements.*

The maximum caps on the financial aid applicable to the financial sector abroad are as follows:

Financial aid to the financial sector abroad	Maximum Limit
i) Internationally rated as "investment grade".....	25%
ii) When the above is not satisfied	5%

The allocation of counterparty credit exposure in transactions with derivatives is conducted on the basis of measurements that are sensitive to risk and to the features of each type of transaction in particular (type of agreement, frequency of marking to market, asset volatility). The transactions to be included are forwards, futures

and options over shares and government securities and monetary regulation instruments issued by the Central Bank with the volatility that has been published, call options or put options on those underlying assets and swaps.

Limits on related parties

The total amount of relevant transactions with related companies or persons may not, at any time, exceed the limits on the shareholders' equity of financial institutions as of the last day of the month preceding the month of computation in accordance with the following general rules:

- in the case of local financial institutions which conduct transactions subject to consolidation by the lender or the borrower, financial aid may be granted to each institution (i) rated 1 by the Financial Superintendency, for a maximum amount equivalent to 100% of computable regulatory capital; or (ii) rated 2 by the Financial Superintendency, for a maximum amount equivalent to 10% of computable regulatory capital; and additional aid for a maximum amount equivalent to 90% of said computable regulatory capital in so far as the date of maturity of such financial aid and other relevant credit lines falls within 180 days;
- in the case of local financial institutions not included in the preceding paragraph, the financial institution may grant financial aid for a maximum amount equivalent to 10% of clients' regulatory capital; and
- other related local companies that solely provide services that supplement the business of the financial institution and of related foreign banks rated as "*investment grade*" may receive financial aid for a maximum amount equivalent to 10% of the lender's regulatory capital.

If the financial institution is rated 4 or 5, no financial aid may be granted to a related person or company except in certain special situations.

Lastly, the amount of total financial aid that is not excluded and that may be granted by a financial institution to individuals and related companies and their shareholding in them may not exceed 20% of the financial institution's regulatory capital as prescribed by Argentine legislation, except when the applicable limit is 100%.

In accordance with the Central Bank's rules, the individuals and legal entities described below are considered to be the financial institution's related companies (and therefore, a part of the same conglomerate):

- any company or person who directly or indirectly exercises control over the financial institution, is controlled by the financial institution or is subject to the consolidated supervision of the financial institution;
- any company that has common directors with the financial institution or company that exercises direct or indirect control over the financial institution or with the financial institution in so far as these directors, overall, form a simple majority in the governance bodies of each one of those companies or financial institutions; or
- exceptionally, in accordance with the determination of the Board of Trustees of the Central Bank, following a proposal of the Financial Superintendency.

Control by a company or person over another shall be considered to exist if any of the following conditions are satisfied:

- said company or person, directly or indirectly, has or controls 25% or more of the total votes over any instrument with right to vote in the other company;
- said company or person, directly or indirectly, has relied on 50% or more of the total votes over the instruments with right to vote in the most recent shareholders' meeting in which directors or other persons who discharge similar duties in the other company have been appointed;
- said company or person, directly or indirectly has an ownership interest in the other company for any reason even when its votes are less than the percentages established above, in a manner such as to have the votes necessary for making decisions at shareholders' meetings or for adopting decisions at Board meetings or similar governance bodies; or

- said company or person, directly or indirectly exercises controlling influence over the other company's management and/or policies when the Board of Trustees of the Central Bank so decides following a proposal of the Financial Superintendency.

The rules contain several non-exclusive factors that are guidelines that may apt to denote the existence of said controlling influence and they include, without limitation, the following:

- possession of a percentage of the company's capital stock that conveys the votes necessary to exert an influence over the approval of the financial statements and the distribution of the other legal entity's earnings;
- representation in the board of directors or top-ranking management bodies in the other legal entity;
- existence of important transactions with the company.
- exchange of management personnel with the company;
- company exhibits technical and administrative dependence; and
- involvement in the establishment of the company's corporate policies.

Regulations concerning interest rate on loans, deposits and commissions

Cap on interest rates on financing

In accordance with Communication "A" 5590, which was in force from June, 2014 to December 2015, the Central Bank established caps on the interest rates accrued by loan transactions in the framework of consumer financing, personal loans and pledge loans granted to individuals who are users of financial services and are not in the nature of micro, small and medium sized businesses (MiPyMEs).

According to these limits, two groups of financial institutions have been defined: (i) financial institutions with Peso-denominated deposits in the non-financial private sector, considering that the average for the last three months previous to April 1, 2014 was equal to or higher than 1% of total deposits in the non-financial private sector in Pesos in the financial system (Group I) and (ii) all the other financial institutions (Group II).

In the case of institutions comprised within Group I, the Central Bank would publish, on a monthly basis, the maximum interest rates that these financial institutions were authorized to apply to each financing scheme disbursed and/or renegotiated. The maximum interest rates were based on the amount resulting from multiplying the most recent "reference interest rate" (according to what has been published by the Central Bank over the simple average of the cut-off rates accrued by the bills issued by the Central Bank in Pesos, for a term closest to 90 days, in the second month immediately preceding the month of disbursement of loans) by the following multiples: (i) with respect to pledge loans: 1.25; (ii) in respect of advances, credit card financing, and mortgage loans over homes assigned to financial institutions by third parties, as credits concerning trusts whose trust assets were constituted by them and as financing guarantees: 2; and (iii) regarding personal loans: 1.45.

As for Group II, the multiples applied were the following: (i) with respect to pledge loans: 1.40; (ii) in respect of advances, credit card financing, and mortgage loans over homes assigned to financial institutions by third parties, as credits concerning trusts whose assets were constituted by them and as financing guarantees: 2; and (iii) regarding personal loans: 1.80.

On December 17, 2015, the Central Bank issued Communication "A" 5853 to repeal the provisions that impose maximum interest rates on the loan transactions described above for any and all new transactions agreed as from that date. In addition, Communication "A" 5853 established as a basic criterion that compensatory interest rates shall be agreed upon freely between financial institutions and customers, taking into account, if applicable, the provisions governing specific regimes as would be the case of the Central Bank rules applicable to credit card loans.

Regarding transactions subject to regulated interest rates, any non-performances detected up and until December 31, 2015 shall be addressed as established by the regulations in force since December 16, 2015. The non-performances identified as from January 1, 2016 shall be governed by Communication "A" 5849. Communication "A" 5849 lays down the procedure to be followed in order to reimburse users for the amounts charged by financial institutions in excess of the maximum interest rate that applies to credit transactions.

Minimum interest rates on term deposits and investments

According to Communication “A” 5640 which was in force during the period October 2014 to December 2015, the Central Bank established minimum interest rates that apply to term deposits placed by individuals (for a principal amount equivalent to, or less than, the amount that is at that time covered by SEDESA) (that is, deposits not in excess of Ps.350,000). Communication “A” 5659, issued on October 31, 2015, increased the contribution that banks had to apply on a monthly basis to the Deposit Guarantee Fund, from 0.015% to 0.060% of the monthly average of daily deposit balances. On April 7, 2016, the Central Bank issued Communication “A” 5943 whereby the monthly contribution rate was taken back to 0.015% of the monthly average of daily deposit balances and on May 1, 2016 the covered amount was enhanced to Ps.450,000).

The interest rate that applied to such deposits could not be below the amount resulting from multiplying the most recent “reference interest rate” (according to what has been published by the Central Bank over the simple average of the cut-off rates accrued by the bills issued by the Central Bank in Pesos, for a term closest to 90 days, in the second month immediately preceding the month of disbursement of loans) by the following multiples, depending on the original term of each deposit: (a) from 30 to 44 days: 0.91, (b) from 45 to 59 days: 0.93, (c) from 60 to 119 days: 0.97, (d) from 120 to 179 days: 0.98, and (e) over 180 days: 0.99.

On December 17, 2015 the Central Bank issued Communication “A” 5853 to repeal the provisions that impose minimum interest rates on the term deposits described above and to set forth that the remuneration for fixed interest rate deposits shall be according to the interest rate that is unrestrictedly agreed upon for any and all new transactions agreed as from that date.

Regarding transactions subject to regulated interest rates, any non-performances detected up and until December 31, 2015 shall be addressed as established by the rules in force since December 16, 2015. The non-performances identified as from January 1, 2016 shall be governed by Communication “A” 5849. Communication “A” 5849 lays down the procedure to be followed in order for financial institutions to reimburse customers for the amounts charged in excess by not complying with the minimum interest rate that applies to term deposits.

Commissions

On October 6, 2013, the Central Bank issued Communication “A” 5460 which provides broad-ranging protection to financial services’ users. Such protection includes, amongst other safeguards, the regulation of commissions and charges in addition to the interest charged by the financial institutions for the services rendered. Additional commissions and charges must originate in an actual, direct cost, apt to be proven, and must be duly justified from a technical and financial point of view. It must be highlighted that Communication “A” 5514 lays down an exception to the enforceability of Communication “A” 5460 to certain pledge loans executed and delivered up and until September 30, 2018.

On June 10, 2014, the Central Bank issued Communications “A” 5591 and “A” 5592 setting forth new rules concerning commissions and charges for basic products and financial services. Since this communication came into force, financial institutions must rely on the Central Bank’s prior authorization to implement increases in the costs of those services. This communication also defines specifically which financial services are considered to be basic.

On December 23, 2014, the Central Bank issued Communication “A” 5685 to modify Communication “A” 5560 setting forth that all the increases in the commissions of new products and services must rely on the Central Bank’s prior authorization.

On August 21, 2015, the Central Bank issued Communication “A” 5795 (as subsequently amended and supplemented, including, without limitation, Communication “A” 5828) setting forth additional rules aimed at protecting the users of financial services through reinforcement regulations that prohibit financial institutions from charging fees and commissions concerning the insurance products acquired by users as ancillary to financial services irrespective of whether such insurance has been obtained at the user’s request or on account of its being a condition imposed by the financial institution for accessing the financial service. In this respect, starting on November 13, 2015, financial institutions may not collect compensation or earnings on such insurance products that their users are under an obligation to obtain. Neither may financial institutions collect such benefits directly or indirectly from the insurance company.

Communication “A” 5828 draws a distinction between “life insurance over debit balance” and “other insurance”. In the case of life insurance over debit balance, financial institutions may not charge commissions and/or

charges associated to these insurance products. Financial institutions must acquire life insurance over debit balance with coverage in the event of death or permanent total disability in connection with the financing granted to individuals. Besides, financial institutions may self-insure the risks of death and permanent total disability of financial services' users. In both cases, coverage must cover in full the amount owed in the event of death or total permanent disability of the beneficiary.

On March 21, 2016, the Central Bank issued Communication "A" 5927 (amended by Communication "A" 5928) which sets forth new rules aimed at the protection of financial services' users. In this respect, starting on April 1, 2016, the electronic transfers of clients who qualify as users of financial services shall not be subject to charges and/or commissions. On the other hand, the electronic transfers of clients who do not qualify as users of financial services (as would be the case of certain companies) they shall not be subject to charges and/or commissions for the amount of up to 250,000. Communication "A" 5927 also establishes that immediate transfers of funds may be placed over the Internet ("home banking") for amounts of up to Ps.100,000 per day and per account, 365 days a year.

On March 21, 2016, the Central Bank issued Communication "A" 5928. According to this communication, all savings accounts shall be free of charge including the use of the related debit card. In this respect, it is set forth that all savings accounts, both new and existing, shall from now on be free of charge. Savings accounts shall not be subject to minimum amount requirements. Neither shall they be subject to charges concerning the process to open maintain or renew them. Also according to this regulation, commissions may be raised by up to 20% and clients must be notified of such circumstance 60 days in advance. In addition, on September 1, 2016, the caps on commissions shall be eliminated but financial institutions must notify their clients of the commissions collected by other financial institutions.

Obligation to grant credit lines for productive investments

On July 5, 2012, the Central Bank issued Communication "A" 5319 which set forth that financial institutions were under a duty to grant credit lines for productive investments (the "2012 Quota") in accordance with the terms and conditions therein described. Later on, the Central Bank issued Communication "A" 5380 and "A" 5449 (the "2013 Quota"), "A" 5516 and "A" 5600 (the "2014 Quota"), "A" 5681 and "A" 5771 (the "2015 Quota"), "A" 5874 and "A" 5975 (the "2016 Quota"), and "A" 6084 (the "2017 Quota"). Pursuant to these communications, new regulations have been set forth for application to credit lines for productive investments (the "Quota"). The 2012 Quota, 2013 Quota, 2014 Quota, 2015 Quota and the 2016 Quota are not cumulative and they must be satisfied independently each year. The financial institutions subject to this regime are those that operate as financial agents for the national and/or provincial governments and/or for the Autonomous City of Buenos Aires and/or for municipal governments and/or whose total average deposit value is equal to, or higher than, 1% of total deposits in the financial system considering the monthly average of daily balances over a three-month period.

2016 Quota. Communication "A" 5874 and Communication "A" 5975 of the Central Bank laid down the following guidelines for the 2016 Quota:

The financial institutions that operate as financial agents for the national and/or provincial governments and/or for the Autonomous City of Buenos Aires and/or for municipal governments and/or whose total share in the deposits of the private, non-financial sector in Pesos in the financial system is equal to, or higher than, 1% considering the simple average of daily balances of deposits in the private, non-financial sector in Pesos for the preceding six-month period must grant credit lines that are, at least, equivalent to 14% of deposits in the private, non-financial sector in Pesos, calculated on the basis of a monthly average of daily balances for November 2015 and as from July 1, 2016, equivalent to 15.5% of deposits in the private, non-financial sector in Pesos, calculated on the basis of the monthly average of daily balances for May 2016.

If they are institutions subject to the Quota whose share in the deposits of the private non-financial system in Pesos is less than 0.25% -calculated in the manner described in the preceding paragraph- the percentage to be applied shall be, at least, 8%, and as from July 1, 2016 and until December 31, 2016, at minimum, 9%. At least 75% of the 2016 Quota should have been allocated to credit lines for small and medium enterprises and for micro enterprises.

The above-mentioned communications (as amended) established the types of financing that may be granted for them to be considered eligible for computation as part of the 2016 Quota, including:

- (i) financing for investment projects (understood as financing for the acquisition of capital goods and/or the construction of the facilities necessary to produce goods and/or services and sell goods and/or services, financing working capital for use in investment projects for up to an amount equivalent to 20% of the total project amount, the acquisition of real estate, to the extent that the amount of the financing does not exceed 70% of the value attributable to constructions on the land, financing to acquire motor vehicles and machinery, which must be consummated for the same selling price as in cash transactions, to name but a few);
- (ii) discount of post-dated checks, public works certificates -or the documents substituting for them- and invoices and promissory notes for customers who are small, medium and micro enterprises for up to an amount equivalent to 30% of the Quota for the first half of 2016 and for the total Quota for the second half of 2016;
- (iii) incorporation, through assignment or discount, of financing granted to financial services' users, or of receivables in trusts whose assets in trust are, above all, the financing granted by financial institutions not subject to these rules, with a nominal annual total financial cost not in excess of 27% for the financing agreed until October 31, 2016 and 21% for those agreed as from November 1, 2016, which may be for up to 5% of the 2016 Quota;
- (iv) micro-loans granted to micro-entrepreneurs who satisfy certain requirements (amongst them, there is the requirement that they should not satisfy as individuals or as a household, revenues in excess of two statutory minimum wages and are not registered with the Tax Authorities -AFIP- as taxpayers for purposes of Value Added Tax, Income Tax and the Tax on Personal Property). As a supplement, micro-entrepreneurs may be granted loans to acquire goods or services for consumption;
- (v) loans granted to individuals at an interest rate of up to a nominal annual 22% for the first year and as from the second year, if such rate does not continue, at a variable rate equivalent to the Badlar interest rate to be applied by private sector banks in Pesos plus 150 basis points and that apply such funds directly to the acquisition of their only home for their household instrumented through assignments to guarantee the rights over trusts for the construction of such real estate subject to certain conditions. This financing may represent, taken together, up to 10% of the 2016 Quota;
- (vi) mortgage loans granted to individuals for them to buy, build or enlarge homes at an interest rate of up to a nominal annual 22% for the first year and as from the second year, if such rate does not continue, at a variable rate equivalent to the Badlar interest rate to be applied by private sector banks in Pesos plus 150 basis points which may reach up to 10% of the 2016 Quota;
- (vii) agreed-upon aid to individuals and/or legal entities in areas undergoing emergency situations by reason of natural catastrophes, which may be as high as 15% of the 2016 Quota;
- (viii) financing granted to financial institutions that are not subject to these Quotas and/or to companies that provide financial aid through financial lease agreements in so far as they apply such funds, as from the coming into force of these rules, to the grant of credit aid to micro, small and medium enterprises for the acquisition of motor vehicles and/or machinery for a selling price that should not be in excess of cash transactions -the list price, net of any general promotion that may be offered- and in the conditions applicable to this line. Funds must be applied in a term not in excess of 10 business days between the date when they receive the aid from the financial institution and the grant of the loans to micro, small and medium enterprises (Communication "A" 5929); and
- (ix) as from August 1, 2016, for working capital to micro enterprises, small and medium enterprises that are applied to the beef cattle business -to acquire and/or produce beef cattle, sheep, pork, poultry, apiculture, etc.-, dairy or other productive activities conducted in regional economies that have the coverage prescribed in Paragraph 2.2.9. of the rules concerning "Minimum loan loss provisions", for up to 10% of the 2016 Quota.

The maximum interest rate to be applied, except for the financing described in paragraphs (iii), (v), (vi) and (vii) shall be a nominal annual fixed 22% interest rate on the transactions agreed until October 31, 2016 and a nominal annual 17% fixed interest rate for the financing agreed upon as from November 1, 2016 or, when dealing with financing stated in Units of Purchasing Value adjustable by "CER" ("UVA"), the interest rate shall be a

nominal annual 1%. When it comes to transactions that do not qualify as small, medium and micro enterprises, the interest rate can be freely agreed by the parties.

The financing must be denominated in Pesos and at the time of disbursing the funds, they must have an average term equal to or higher than 24 months, weighing to that end, the maturity dates for principal payments without the total term being shorter than 36 months. The financing described in paragraph (i) for application to working capital must have an actual weighted average term equal to or higher than 24 months. The discount transactions set forth in paragraph (ii) and (iii) shall have no minimum term. The mortgage loans set forth in paragraph (vi) must have a minimum term of 10 years. The financing for working capital to micro enterprises and small and medium enterprises set forth in Paragraph (ix) must have a weighted average term equal to or higher than 18 months for financing agreed up until October 31, 2016 and a minimum term of 12 months for those agreed as from November 1, 2016.

Financial institutions may form this portfolio through loans granted together with other institutions in the applicable proportion. If prepayments were admitted, the right to prepay must be granted solely in favor of borrowers.

2017 Quota. The financial institutions included in the 2017 Quota must maintain in the period starting on January 1, 2017 and ending on July 30, 2017, a balance of financing that should be, at least, equivalent to 18% of deposits in the private, non-financial sector in Pesos, calculated on the basis of a monthly average of daily balances for November 2016. If they are institutions subject to the Quota whose share in the deposits of the private non-financial system in Pesos is less than 0.25% -calculated in the manner described in the preceding paragraph- the percentage to be applied shall be, at least, 10%, for the period starting on January 1, 2017 and ending on July 30, 2017.

Loans and Home Savings Instruments denominated in UVI

On April 8, 2016, the Central Bank issued Communication “A” 5945. According to this communication, banks may capture deposits and grant new loans adjustable by application of CER through an adjusted savings system whose instruments are known as UVI. The Central Bank shall periodically publish the daily value of each UVI in Pesos for deposits and loans.

Foreign Exchange System

Since Macri’s administration took office, there were significant changes in the rules that govern the operation of the foreign exchange market seeking greater flexibility in foreign exchange transactions. These modifications, initially prescribed by Communication “A” 5850, Communication “A” 5899 and Communication “A” 5955, to name but a few, allowed the institutions authorized to operate in foreign exchange to undertake arbitrage and exchange transactions with their customers, loosened conditions for residents to be able to access the foreign exchange market to form external assets and the conditions to repatriate portfolio investments and direct investments by non-residents.

The Central Bank continued to loosen the foreign exchange rules by adopting Communication “A” 6037 (August 9, 2016) which substantially simplified the general conditions in which the foreign exchange market had been operating since 2002. Pursuant to the newly enacted regulations, foreign exchange transactions may be channeled with a sworn statement of the item for which the foreign exchange transaction was conducted, except in those cases in which specific requirements are established, suppressing, in general, the obligation to justify, with supporting documentation, each foreign exchange transaction.

Also, transactions conducted to form external assets by residents are no longer subject to a limitation on amounts and restrictions were eliminated on the access to the market associated to derivative transactions with counterparties abroad. Besides, the conditions to operate in foreign exchange outside regular business hours have loosened.

Pursuant to Resolution E 1/2017 of the Ministry of Finance and Communication “A” 6150 of the Central Bank, the obligation of permanence in the country for a period of 120 days imposed for the non-residents portfolio investments destined to financial assets of the private sector was eliminated. As of this resolution and the provisions of Central Bank Communication “A” 6244, there are no restrictions on entry and exit in the MULC.

Lending capacity in foreign currency

The rules governing the application of the capacity to lend deposits in foreign currency, the Central Bank Communication “A” 4851, as modified, established that the capacity to lend the deposits in foreign currency, including deposits in US Dollars to be settled in pesos must be included in one of the following categories: (a) export prefinancing and financing, irrespective of whether these exports are channeled directly or through agents, consignees or other brokers acting on behalf of the merchandise owner; (b) financing to those engaged in production, processing or warehousing in so far as they rely on irrevocable contracts to sell merchandise to an exporter and the price has been set in foreign currency, irrespective of the currency in which the transaction is settled and in so far as they deal with fungible merchandise with a listed price in foreign currency, normal and habitual in local or foreign markets, that are broadly widespread and easily available to public knowledge; (c) financing to producers of goods to be exported as final products or as a part of other goods by third-party buyers in so far as these transactions rely on total guarantees in foreign currency with such third-party buyers; (d) financing for projects to invest, form working capital or buy any type of goods -including temporary imports of commodities- apt to increase or related to the production of goods for exports, including syndicated loans, whether or not they are granted by local or foreign financial institutions; (e) financing to customers in the commercial portfolio and in a commercial nature that are afforded the treatment that they would be afforded if they were loans for consumption or for homes to be applied to imports of capital goods that increase the production of merchandise to be sent to the domestic market; (f) debt securities or certificates of participation in financial trusts whose assets in trust are loans originated by the financial institutions according to what has been described in paragraphs (a) to (d) abroad (to the exclusion of syndicated loans); (g) debt securities or certificates of participation in financial trusts issued in foreign currency and subject to the public offering regime authorized by the Argentine Securities Commission, whose assets in trust are documents secured by reciprocal guarantee companies or by funds guaranteed by the state, bought by the trustee in order to finance export transactions; (h) financing to be applied to purposes different from those mentioned in the preceding paragraphs (a) to (d) covered by the loan program referred to in “BID No. 119/OC-AR LOAN” that does not exceed 10% of this lending capacity; (i) interfinancial loans (entities may allocate to these resources interfinancial loans if they identify them and report this circumstance to the borrowers); (j) Central Bank bills denominated in US Dollars, (k) Direct investments abroad by companies that are residents in Argentina and aimed at conducting activities consisting in the production of goods and/or non-financial services, either through contributions and/or acquisitions of ownership interests in companies to the extent that they have been incorporated in countries or territories considered to cooperate with fiscal transparency based on the provisions under Section 1 of Decree No. 589/13 and supplementary; and (l) funding of investment projects, including their working capital, that allow to increase production in the energy sector and rely on irrevocable agreements for sale and/or total security interests or guarantees in foreign currency.

The Central Bank Communication “A” 5534 (as supplemented) provides a specific formula to calculate the capacity of financial institutions to grant loans in foreign currency for imports (corresponding to sub-paragraphs (d) and (e) and, as applicable, sub-paragraphs (f) to (h) of the preceding paragraph).

Lending capacity shall be determined for each deposit-capturing currency and this determination shall be made on the basis of a monthly average of daily balances posted during each calendar month. Application shortages shall be subject to an increase equivalent to minimum cash requirements in the respective foreign currency.

General Position in Foreign Exchange

The General Position in Foreign Exchange comprises all of the institution’s liquid external assets, such as: gold in coins or in good delivery bars, foreign currency notes, holdings in sight deposits in foreign banks, investments in external government bonds issued by countries that are OECD members whose sovereign debt has been internationally rated as no less than “AA”, term deposit certificates in banking institutions abroad that have been internationally rated as no less than “AA” and debit and credit balances in correspondent accounts. Also included are the purchases and sales of the assets that have been agreed upon and are pending settlement for foreign exchange transactions agreed upon with clients for terms not in excess of 48 hours. Not included in the foreign exchange general position are the bank notes in foreign currency held in escrow at the institution, correspondent banks’ balances stemming from third-party transfers pending settlement, forward sales and purchases of currency or external values and direct investments abroad.

The maximum limit on the general position in Foreign Exchange shall be recalculated on a monthly basis and its adjustment shall come into force as from the first business day of each month. Pursuant to the rules of the applicable Reporting Regime, this cap has been established at 15.0% of the equivalent in US Dollars of the

Regulatory Capital for the month immediately preceding the last month in which a maturity date for submission to the Central Bank has fallen. The maximum limit on the general foreign exchange position shall be raised by an amount in US Dollars equivalent to 5% of the sum of what has been operated by the institution in the purchases and sales of foreign currency with clients in the calendar month preceding the immediately previous month by a 2% of total sight and term deposits placed and payable locally in foreign currency notes, excluding deposits held in escrow and those established in the framework of Law No. 27,260, as posted by the entity at the close of the calendar month preceding the previous month and for a daily amount that is the equivalent in US Dollars to the deposits placed in foreign currency in the framework of Law No. 27,260 net of foreign currency notes remitted as a result of swaps and arbitrages abroad as from October 1, 2016. If the maximum limit were less than US\$8 million plus the daily amount equivalent in US Dollars stemming from the deposits placed in foreign currency in the framework of Law No. 27,260 net of the bank notes in foreign currency remitted as a result of swaps and arbitrages with counterparties abroad, as from October 1, 2016, the minimum limit of the maximum amount shall be the sum of these two latter amounts.

The institutions authorized to operate in foreign exchange that do not abide by the maximum limits established for the general position in foreign exchange or by the rules under the reporting regime associated to foreign exchange transactions must abstain from operating in foreign currency up and until the moment when they are in full compliance with the above.

Although certain exceptions are admitted, the entities authorized to operate in foreign currency must rely on previous conformity from the Central Bank to do their own purchases when payment is made against the delivery of foreign currency or another type of external asset that is comprised in the general position in foreign exchange.

Net global position in foreign exchange

All the assets and liabilities for financial intermediation in foreign currency and in securities in foreign currency (for spot and forward transactions) are included in the net global position, including derivatives contracts associated to these items and those that contemplate changes in foreign exchange rates, the concepts that must be computed in the General Position in Foreign Exchange, deposits in foreign currency in the accounts opened at the Central Bank, as well as the position in gold, in Central Bank bills in foreign currency, subordinated debt in foreign currency and instruments that are representative of debt in foreign currency.

Also computed will be the forward transactions that are agreed upon under a framework agreement within the purview of authorized markets in Argentina and in the cash settlement modality without delivery of the underlying asset. In addition, participation certificates shall be considered and so shall the debt securities issued by financial trusts and the receivables concerning ordinary trusts in the relevant proportion, when the underlying asset is made up by assets in foreign currency. The assets that are deductible to determine regulatory capital, any items included as posted by the financial institution in its branches abroad shall be excluded from this ratio.

Two ratios are considered in the Net Global Position in Foreign Exchange:

Negative Net Global Position in Foreign Exchange (liabilities exceed assets): starting on January 1, 2017 (Communication "A" 6128 of the Central Bank) this position may not exceed 25.0%.

Positive Net Global Position in Foreign Currency (assets exceed liabilities): The Central Bank Communication "A" 6128 laid down that, as from January 1, 2017 this daily position (as a monthly average of daily balances converted into Pesos at the reference foreign exchange rate) may not exceed 25% of regulatory capital or an institution's own liquid resources (which should be understood as follows: liquid resources is the excess of regulatory capital vis-à-vis tied-up assets and other items computable in the manner prescribed by the Central Bank in connection with "Ratio for tied up assets and other items") both corresponding to the month immediately preceding the relevant month, whichever smaller.

Excesses over these ratios shall be subject to a charge equivalent to 1.5 times the nominal interest rate yielded by Lebac in Pesos (Central Bank securities). The charges not paid in due time and manner shall be subject to an interest rate equivalent to the rate stemming from adding 50% to the rate applicable to excesses in those ratios. In addition to the charge mentioned above, the penalties set forth in Section 41 of the Law of Financial Institutions shall apply (including: cautioning; warning; fines; temporary or permanent inability to use bank checking account; temporary or permanent inability to perform as founders, directors, managers, members of supervisory committees, members of statutory auditors' committees, bankruptcy trustees, managers, auditors, partners or shareholders and repeal of the authorization to operate).

ROFEX's US Dollar Futures Operations declared to be in an emergency situation

On December 14, 2015, Communication 657 issued by Argentina Clearing S.A. and Mercado a Término de Rosario S.A. (subject to the express approval by the Argentine Securities Commission, which was granted) decided (i) to declare an emergency situation in connection with the positions open at that date on the Dollar Futures Agreements falling due up and until June 2016, traded on a date subsequent to September 29, 2015; and (ii) to adopt the following measures in connection with the open positions bought at that date of US Dollar Futures falling due until June 2016, inclusive: (a) to correct the original price of the transaction by adding Ps.1.25 per US Dollar for those transactions open between September 30, 2015 and October 27, 2015, inclusive; (b) the correction of the original price of the transaction by adding Ps.1.75 per US\$1.00 for those transactions open as from October 28, 2015.

The corrections mentioned in the preceding paragraphs were performed by recording a sales transaction at the original price of the transaction and the simultaneous purchase was recorded at the original price plus the amount established in Items a. and b. which resulted in the novation of the transactions involved in new transactions at the newly determined price. For purposes of the registry kept by ROFEX and Argentina Clearing S.A., the counterparty in these transactions was the Central Bank of the Argentine Republic.

Assignment of position in foreign currency of financial and foreign exchange transactions

Communication "A" 5852 laid down on December 17, 2015 that financial institutions authorized to operate in foreign exchange and foreign exchange institutions were under a duty to sell to the Central Bank their positive position in Foreign Exchange in force at the close of operations on December 16, 2015 valued at the reference exchange rate prevailing on that date and repurchase it in full, which repurchase may take place on December 17, 18 or 21, December 2015 at the reference exchange rate in force on the date of repurchase.

Dealing specifically with the purchase of the open position in US Dollar futures traded in Rofex and covered by the correction of the original price contemplated in Sub-section II) of Communication 657 of Argentina Clearing S.A. and Mercado a Término de Rosario S.A., this had to be sold to the Central Bank at the original prices subject to the correction that would have stemmed from the application of this Communication and be totally repurchased at the reference exchange rate prevailing on the date of the repurchase.

In order to exercise the repurchase date option set forth in the first paragraph, institutions had to submit a note signed by their CEOs or by the highest ranking local authority to the General Operations Department by 10 am on the date chosen expressly stating the decision adopted. As to the institutions that did not exercise the option set forth in the first paragraph or that did not satisfy the formal requirements set forth above, the repurchase had to be perfected on December 22, 2015 at the reference exchange rate applicable on that date.

The concept of "position in foreign currency" pointed out above was determined as follows: (i) as to the foreign exchange bureaus, agencies and offices: general foreign exchange position; and (ii) for the financial institutions authorized to operate in foreign exchange: net global position in foreign exchange minus the assets net of the liabilities in government securities denominated in foreign currency based on the currency in which financial services are paid (foreign currency or pesos -dollar linked). If the foreign exchange position as determined were negative, institutions were not obligated to sell anything to the Central Bank. Neither were they obligated to repurchase anything from it.

On December 18, 2015, the Central Bank conducted the above-mentioned repurchase at the reference exchange rate established for that date. Additionally, on December 22, 2015, CCF conducted the above-mentioned repurchase at the reference exchange rate established for that date.

Fixed assets and other items

The Central Bank determines that the fixed assets and other items maintained by the financial institutions must not exceed 100% of the financial institutions' RPC.

Such fixed assets and other items include:

- shares of local companies;
- miscellaneous receivables;
- property, plant and equipment;

- other assets;

The calculation of such fixed assets will be effected according to the month-end balances, net of depreciations, accumulated amortizations and allowances for loan losses. Non-compliance with the ratio produces an increase in the minimum capital requirements equal to 100% of the excess on the ratio.

Credit Ratings

Communication “A” 5671 adopted on November 28, 2014 substitutes for the rules adopted by the Central Bank when it comes to the requirements of a given credit rating which must have been awarded by a local risk rating agency. The prevailing criterion at present is that established by Communication “A” 5671 for those cases in which there were requirements to exhibit an international credit rating.

The provisions contained in Communication “A” 5671 are the basic guidelines to adequately assess the credit risk that the financial institutions must abide by when complying with the provisions of the Central Bank that require a given rating and do not replace the credit rating that each financial institution must subject its counterparties to. The international risk ratings referred to in these provisions must be issued by the risk rating agencies who enforce a code of ethics based on the “Code of Conduct Principles for Risk Rating Agents” released by the International Organization of Securities Commissions (OICV-IOSCO).

Exhibit II to Communication “A” 5671 lays down a table of the financial institution’s new rating requirements. This table classifies the credit rating requirements applicable to the different operations.

Debt classification and allowances for loan losses

Credit portfolio

The regulations on debt classification are designed to establish clear guidelines for identifying and classifying the quality of assets, as well as evaluating the actual or potential risk of a lender sustaining losses on principal or interest, in order to determine -taking into account any loan security-, whether the provisions against such contingencies are adequate. Banks must classify their loan portfolios into two different categories: (i) consumer or housing loans and (ii) commercial loans. Consumer or housing loans include housing loans, consumer loans, credit-card financings, loans up to Ps.1,250,000 to small enterprises and other types of commercial loans up to Ps.2,500,000 with or without guarantees. All other loans are considered commercial loans. Consumer or housing loans in excess of Ps.2,500,000 are classified as commercial loans. If a client has both types of loans (commercial and consumer or housing loans), consumer or housing loans will be added to the commercial portfolio to determine under which portfolio they should be classified based on the amount indicated. In these cases, the loans secured by preferred guarantees will be considered at 50% of their nominal value.

Under the current debt classification system, each customer, as well as the customer’s outstanding debts, is included within one of six sub-categories. The debt classification criteria applied to the consumer loan portfolio are primarily based on objective factors related to customers’ performance on their obligations or their legal standing, while the key criterion for classifying the commercial loan portfolio is each borrower’s paying ability based on its future cash flow.

Commercial loans classification

The principal criterion to evaluate a loan pertaining to the commercial portfolio is its borrower's ability to repay it, whose ability is mainly measured by such borrower's future cash flow. Pursuant to Central Bank rules, commercial loans are classified as follows:

Classification	Criteria
Normal situation	Debtors in respect of whom there are no doubts of their ability to comply with their payment obligations.
Subject to special monitoring/Under observation	Debtors that, among other criteria, are up to 90 days past due and, although considered to be able to meet all their financial obligations, are sensitive to changes that could compromise their ability to honor debts absent timely corrective measures.
Subject to special monitoring / Under negotiation or subject to refinancing agreement	This includes those clients who are unable to comply with their payment obligations as agreed upon, and formally state, within 60 days after default in payment, their intention to refinance such debts. If no agreement is reached within 90 days (if two lenders are involved) or 180 calendar days (if more than two lenders are involved) after the payment default date, a new classification will be given to debtor under the next lower category, based on the indicators established for each level.
Troubled	Debtors with difficulties honoring their financial obligations under the loan on a regular basis, which, if uncorrected, may result in losses to the bank.
With high risk of insolvency ..	Debtors who are highly unlikely to honor their financial obligations under the loan.
Uncollectible	Loans classified as irrecoverable at the time they are reviewed (although the possibility might exist that such loans might be collected in the future). The debtor will not meet its financial obligations with the financial institution
Uncollectible according to Central Bank Rules.....	(a) A debtor has defaulted on its payment obligations under a loan for more than 180 calendar days according to the corresponding report provided by the Central Bank, including (1) financial institutions liquidated by the Central Bank, (2) residual entities created as a result of the privatization of public financial institutions, or in the privatization or dissolution process, (3) financial institutions whose licenses have been revoked by the Central Bank and find themselves subject to judicial liquidation or bankruptcy proceedings and (4) trusts in which Seguro de Depósitos S.A. (SEDESA) is a beneficiary, or (b) certain kinds of foreign borrowers (including banks or other financial institutions that are not subject to the supervision of the Central Bank or similar authority of the country in which they are incorporated) that are not classified under the international rating as "investment grade" by any of the rating agencies approved by the Central Bank.

Consumer and housing loans classification

The principal criterion applied to loan classification in the consumer and housing portfolio is the length of the period for which such loans remain overdue. Under the Central Bank Rules, consumer and housing borrowers are classified as follows:

Classification	Criteria
Normal situation	If all payments on loans are current or less than 31 calendar days overdue and, in the case of checking account overdrafts, less than 61 calendar days overdue.
Low risk	Loans granted to clients who rarely default on payment obligations and are overdue for a period of more than 31 and up to 90 days.
Medium risk	Loans upon which payment obligations are overdue for a period of more than 90 and up to 180 calendar days.
High risk.....	Loans in respect of which a legal action seeking collection has been filed or loans having payment obligations overdue for more than 180 calendar days, but less than 365 calendar days.
Uncollectible	Borrowers who are highly likely not to honor their financial obligations.
Uncollectible loans	Loans in respect of which payment obligations are more than one year overdue or the debtor is insolvent or in bankruptcy or liquidation.
Uncollectible in accordance with Central Bank Rules.....	The same criteria applied for commercial loans deemed to be uncollectible in accordance with the Central Bank Rules.

Minimum allowances for loan losses

The following minimum credit provisions are required to be made by Argentine banks in relation to the credit portfolio category:

Category	With Preferred Guarantees	Without Preferred Guarantees
“Normal situation”	1%	1%
“Under observation” and “Low risk”	3%	5%
“Under negotiation or subject to refinancing agreements”	6%	12%
“Troubled” and “Medium risk”	12%	25%
“With high risk of insolvency” and “High risk”	25%	50%
“Uncollectible”	50%	100%
“Uncollectible according to Central Bank Rules”	100%	100%

The Financial Superintendency may require additional provisioning if it determines that the current level is inadequate.

Financial institutions are entitled to record allowances for loan losses in amounts larger than those required by the Central Bank Rules. In such cases and despite the existence of certain exceptions, recording a larger allowance for a commercial loan, to the extent the recorded allowance amount falls into the next credit portfolio category set forth by the Central Bank Rules, shall automatically result in the corresponding debtor being re-categorized accordingly.

Minimum frequency for classification review

Financial institutions are required to develop procedures for the analysis of the portfolio assuring an appropriate evaluation of a debtor’s economic and financial situation and a periodic revision of its situation concerning objective and subjective conditions of all the risks taken. These established procedures are to be detailed in a manual entitled “Manual of Procedures for Classification and Allowances,” which shall be permanently accessible to the Financial Superintendency for review. The classification review should be duly documented. The classification review should include (i) clients whose total indebtedness (in Pesos and in foreign currency) exceeds the lesser of 1% of the institution’s regulatory capital for the month immediately preceding the month of classification or the amount equivalent to Ps.4 million; and (ii) reaching at least 20% of the total active lending portfolio, which will further include, if applicable, clients whose total indebtedness is lower than such margins described in (i) above.

In the case of commercial loans, applicable regulations require a minimum frequency of review. Such review must take place: (i) quarterly for clients with financings equal to or greater than 5.0% of the financial institution's regulatory capital for the month immediately preceding the end of such period and (ii) semi-annually, for clients whose financing is (x) at any time the lower of 1% or the amount equivalent to Ps.4 million and (y) lower than 5.0% of the financial institution's regulatory capital from the previous month. As of the end of the second quarter, the full review under (i) and (ii) must have covered no less than 50% of the total amount of the commercial portfolio and, if lower, it shall be further include clients (in descending order) whose total indebtedness is lower than the limits described in (ii)(x) above.

In addition, financial institutions must review the rating assigned to a debtor in certain cases, such as when another financial institution reduces the debtor classification in the "Credit Information Database" whose credits represent at least 10% of the debtor's total financing reported in the financial system. Only more than one-level discrepancy is allowed in relation to the information submitted by financial institutions to the "Credit Information Database" and the lowest classification awarded by at least two entities and total credits from such entities account for 40% or more of the total amount so reported; if there is a greater discrepancy, the financial institution will be required to reclassify the debtor.

Allowances for loan losses

Allowances for loan losses are maintained in accordance with the Central Bank's applicable rules. The increases in the allowance for loan losses are based on the level of growth of the loan portfolio as well as on a deterioration in the quality of existing loans, whilst the decreases in allowances for loan losses arise from regulations that demand that non-performing loans should be classified as "irrecoverable" and written off at the expiration of a given period and on management's decisions to write off those non-performing loans that exhibit a small likelihood of recovery.

Depositors' privileges

Pursuant to Section 49 of the FIL, in the event of a bank being adjudged bankrupt by the courts, all depositors, irrespective of their class or amount or currency of their deposits shall enjoy a privilege vis-à-vis all the other creditors (such as bank shareholders), except for certain claims arising from labor relations (Section 53, paragraphs "a" and "b") and those creditors with pledges or mortgages in the following order of priority: (a) deposits of up to Ps.450,000 per person (including all the amounts that such person deposited with a financial institution), or their equivalent in foreign currency, (b) all the deposits for an amount in excess of Ps.450,000, or the equivalent in foreign currency, and (c) the liabilities originating in the commercial lines granted to the financial institution which have a direct impact on international trade. In addition, according to Section 53 of the FIL, as amended, the Central Bank's claims have absolute priority over all the other claims, except for pledge and mortgage loans, certain labor creditors, the deposits placed by individuals and/or legal entities in conformity with Section 49, Sub-section e), paragraphs i) and ii), debt granted in accordance with Section 17, paragraphs (b), (c) and (f) of the Central Bank Charter (including the discounts granted by financial institutions due to a temporary absence of liquidity, advances to financial institutions covered by a security interest, assignment of rights, pledges or a special assignment of certain assets) and the debt granted by the Bank Liquidity Fund secured by a pledge or a mortgage.

The modification in Section 35 bis of the Law of Financial Institutions by virtue of Law No. 25,780 sets forth that if a bank is in a situation in which the Central Bank may revoke its authorization to operate and is subjected to a dissolution or liquidation following a judicial decision, the Board of Trustees of the Central Bank may undertake certain actions, including, without limitation, and in the event of excluding transfers of assets and liabilities to financial trusts or other financial institutions, the Central Bank may exclude in whole or in part the obligations mentioned in Section 49, Paragraph e) as well as the debt defined in Section 53, thus complying with the order of priority amongst creditors. When it comes to the partial exclusion, the order of priority of sub-section e) under Section 49 must be abided by and the obligations in the same category must not be afforded a different treatment.

Mandatory Bank Deposit Insurance System

Law No. 24,485 enacted on April 12, 1995, as amended, created a deposit insurance system (the "SSGD"), which is mandatory for bank deposits, and delegated to the Central Bank the responsibility for organizing and implementing the SSGD to the Central Bank. The system is a supplemental protection to the privilege granted to depositors by means of section 49 of the FIL, as mentioned above.

The SSGD has been implemented through the creation of a deposit guarantee fund (the “FGD”), administered by a private corporation called *Seguro de Depósitos Sociedad Anónima* (hereinafter, “SEDESA”). Pursuant to Decree No. 1292/96, the shareholders of SEDESA are the Argentine government, through the Central Bank, and a trust integrated by the participating financial institutions. The participating institutions must pay to the FGD a monthly contribution determined by the Central Bank Rules. The SSGD is financed through regular and additional contributions made by such financial institutions, as provided for in Central Bank Communication “A” 4271, dated December 30, 2004.

The SSGD covers deposits made by individuals and legal entities in Argentine or foreign currency and maintained in accounts with the participating financial institutions, including checking accounts, savings accounts, and time deposits up to the amount of Ps.350,000, in accordance with the provisions of Central Bank Communication “A” 5659 dated October 31, 2014, as amended. On April 7, 2016, Communication “A” 5943 increased the covered amount to Ps.450,000, beginning on May 1, 2016. Guarantee payments are due within 30 business days of revocation of the license of the financial institution in which such funds are deposited and such payments are subject to the depositor’s priority rights described above.

In view of the circumstances affecting the financial system, Decree No. 214/2002 established that SEDESA may issue registered securities in order to offer them to depositors in payment of the guarantee in the event that no sufficient funds are available.

The SSGD does not cover: (i) deposits maintained by financial institutions in other intermediaries, including certificates of fixed term deposits acquired through secondary trading, (ii) deposits made by persons directly or indirectly affiliated with the financial institution, (iii) time deposits of securities, acceptances or guarantees, (iv) any transferable time deposits title to which has been acquired by endorsement, (v) any deposits benefiting from some incentive (e.g., car raffles) in addition to the agreed upon interest rate, and (vi) any deposits in which the agreed-upon interest rate is higher than the reference rates periodically disseminated by the Central Bank for time deposits and demand deposit account balances and available amounts from overdue deposits or closed accounts.

Pursuant to Communication “A” 5710, every financial institution was under the obligation to provide to the FGD a monthly amount equal to 0.6% of the monthly average daily balances of deposits in local and foreign currency, as determined by the Central Bank. On April 7, 2016, Communication “A” 5943 established a monthly contribution equal to 0.015% of the monthly average of daily balances of deposits.

When deposits in U.S. dollars of the non-financial private sector are applied to the subscription of Central Bank securities denominated in U.S. dollars, the financial institutions’ contribution will be equal to 0.015% of the monthly average of daily balances of the net position of such securities. The immediate contribution of such amounts is a condition precedent to the permanent operation of a financial institution. The first contribution was made on May 24, 1995. The Central Bank may require financial institutions to prepay an amount equivalent to two years of monthly contributions and debiting the contributions due on the funds deposited with financial institutions in the Central Bank. The Central Bank may also require additional contributions from certain entities, depending on their assessment of the financial situation of such entities.

In addition to the contribution referred to above, financial institutions are required to make an additional contribution, which shall differ depending on the result from weighting the following factors: (i) the rating assigned to the institution as a result of the evaluation performed by the Financial Superintendency; (ii) the ratio of excess payment of regulatory capital to the minimum cash requirement; and (iii) the quality of the active lending portfolio. When the contributions to the FGD reach Ps.2 billion, or 5.0% of total deposits in the system, whichever is greater, the Central Bank may suspend or reduce monthly contributions and reinstate them if the contributions subsequently fall below such level.

Capital markets

Commercial banks are authorized to subscribe for and sell equity and debt securities. At present, there are no statutory limitations as to the amount of securities that a bank may undertake to subscribe. However, under the Central Bank regulations, underwriting of debt securities by a bank is treated as “financial assistance” and, accordingly, until the securities are sold to third parties, such underwriting is subject to limitations.

The Capital Markets Law made substantial changes in the regulations governing markets, stock exchanges and various agents operating in the capital markets, in addition to certain changes in the CNV’s powers. On

September 9, 2013, the CNV published the CNV Rules that supplement the Capital Markets Law. The CNV Rules have been in effect since September 18, 2013.

One of the most significant changes to the Capital Markets Law and the CNV Rules is that agents and markets are required to comply with the CNV requirements in order to apply for authorization to operate, and with registration requirements. It further provides that each agent category must comply with minimum net worth and liquidity requirements. In addition, pursuant to the Capital Markets Law, market self-regulation was eliminated, and authorization, supervision, control and disciplinary and regulatory powers are conferred on the CNV in respect of all market participants.

Financial Institutions undergoing economic difficulties

The FIL provides that any financial institution, including a commercial bank, which repeatedly violates different limits or required technical ratios, in the opinion of the Central Bank adopted by members representing the majority of the board of directors, with impaired solvency or liquidity or in any of the other circumstances listed in section 44 of the FIL, must, upon request from the Central Bank and in order to avoid the revocation of its license, prepare a restructuring plan. The plan must be submitted to the Central Bank on a specified date, not later than 30 calendar days from the date on which a request has been made by the Central Bank to that effect. Upon the institution's failure to submit, secure regulatory approval of, or comply with, a restructuring plan, the Central Bank will be empowered to revoke the institution's license to operate.

Furthermore, the Central Bank's charter authorizes the Financial Superintendency, upon prior authorization from the President of the Central Bank, to fully or partially order the interim suspension, subject to the approval of the President of the Central Bank, of the operations of a financial institution for up to 30 days if its liquidity or solvency are adversely affected. Such term can be extended for up to 90 days, with the approval of the Board of Directors of the Central Bank. During the suspension term, no injunctions may be ordered and no enforcement actions may be pursued against the institution. In addition, any commitments that may increase the institution's liabilities shall be null and void, and enforcement thereof and interest accrual shall be suspended.

If, in the opinion of the Central Bank, a financial institution is undergoing a situation which, under the FIL, would authorize the Central Bank to revoke its license to operate as such, the Central Bank may, before considering such revocation, order a regularization and repair plan that may consist of a series of measures, including, among others:

- adopting measures to capitalize or increase the capital of the financial institution;
- revoking the approval granted to the shareholders of the financial institution to hold an interest therein;
- restructuring or transferring assets and liabilities;
- granting temporary exemptions to comply with technical regulations or payment of charges and penalties arising from such defective compliance; or
- appointing a delegate or auditor ("*interventor*") that may prospectively replace the board of directors of the financial institution.

Revocation of the license to operate as a financial institution

The Central Bank may revoke a financial institution's license to operate if a restructuring plan has failed or is not deemed feasible, and local laws and regulations have been violated, or the financial institution suffers insolvency or liquidity, or significant changes have occurred in the institution's condition since the original authorization was granted, or a decision by the financial institution's legal or corporate authorities concerning its dissolution has been adopted, or other circumstances set forth in the FIL take place. In addition, pursuant to Communication "A" 5785, the penalties imposed by the Central Bank, UIF, CNV and/or the Argentine Insurance Superintendency on financial institutions and/or their principals may result in revocation of their licenses to operate as financial institutions. Such revocation may be ordered if in the opinion of the Board of Directors of the Central Bank there is a substantial change in conditions required to maintain such license, including those related to the competence, experience, honesty and moral integrity of (i) the board members of a financial institution (directors, advisors or equivalent officers), (ii) their shareholders, (iii) members of the surveillance committee, and (iv) others, such as managers. For such purposes, the Financial Superintendency will also take into account the information and/or penalties communicated by foreign supervisory entities with equivalent powers. For assessment of the

significance of penalties, the type, reason and amount of the so imposed penalty, the extent of participation in the events, any potential alteration of the economic order, the existence of damages to third parties, any economic benefits to the person on whom the penalty was imposed, the volume of operations, its regulatory capital and the office or functions discharged by any involved individuals will be considered.

Once the license to operate as a financial institution has been revoked, the financial institution shall be liquidated.

Liquidation of financial institutions

As provided in the FIL, the Central Bank must notify the revocation decision to a competent court, which will then determine who will liquidate the entity: the corporate authorities (extrajudicial liquidation) or an independent liquidator appointed by the court for that purpose (judicial liquidation). The court's decision will be based on whether or not there is sufficient assurance that the corporate authorities are capable of carrying out such liquidation properly.

Bankruptcy of financial institutions

According to the FIL, financial institutions are not allowed to file their own bankruptcy petitions. In addition, bankruptcy shall not be granted until the license to operate as financial institution has been revoked. Once the license to operate as a financial institution has been revoked, the commercial court of competent jurisdiction may adjudge the former financial institution in bankruptcy, or a petition in bankruptcy may be filed by the Central Bank or by any creditor of the bank, in this case 60 calendar days after the license has been revoked.

Once the bankruptcy of a financial institution has been adjudged, provisions of the Argentine Bankruptcy Law No. 24,522 and the FIL shall be applicable; provided however that in certain cases, specific provisions of the FIL shall supersede the provisions of the Argentine Bankruptcy Law No. 24,522 (i.e. in respect of priority rights of depositors).

Merger, consolidation and transfer of goodwill

Merger, consolidation and transfer of goodwill may be arranged between entities of the same or different type and will be subject to the prior approval of the Central Bank. The new entity must submit a financial-economic structure profile supporting the project in order to obtain authorization from the Central Bank.

Financial System Restructuring Unit

The Financial System Restructuring Unit (*Unidad de Reestructuración del Sistema Financiero*) was created to oversee the implementation of the strategic approach used by those banks that receive aid from the Central Bank. This unit is responsible for rescheduling maturity dates, determining restructuring strategies and action plans, approving transformation plans and speeding up amortization of rediscounts granted by the Central Bank.

IN RESPONSE TO THE PROVISIONS DETAILED ABOVE, TO SUBSCRIBE OUR NOTES, INVESTORS SHOULD PROVIDE ALL INFORMATION AND DOCUMENTS TO BE FILED OR REQUIRED BY THE DEALERS AND / OR THE BANK TO MEET TO, THE RULES ON PREVENTION OF LAUNDERING OF CRIMINAL ORIGIN ISSUED BY THE UIF, THE CENTRAL BANK OR THE CNV.

For a thorough analysis of money laundering regulations in effect as of the date of this document, investors are advised to consult with their own legal counsel and to read Title XIII, Second Book of the Argentine Criminal Code and any regulations issued by the UIF, the CNV and the Central Bank in their entirety. For this purpose, interested parties may visit the websites of the Argentine Ministry of Economy and Public Finance, www.infoleg.gov.ar, the UIF, www.uif.gov.ar, the CNV, www.cnv.gob.ar or the Central Bank, www.bcra.gov.ar.

ARGENTINE INSURANCE INDUSTRY SYSTEM AND REGULATION

The following is a summary of certain matters relating to the Argentine insurance system, including provisions of Argentine law and regulations applicable to insurance companies in Argentina. This summary is not intended to constitute a complete analysis of all laws and regulations applicable to insurance companies in Argentina. Prospective investors in the Notes are advised to consult their legal advisors for a more detailed analysis thereof.

The Insurance Industry

The total number of existing insurers amounts to 184, of which 16 are in Retirement Insurance, 37 exclusively in Life (includes: Collective, Individual, Pension, Health, Personal Accidents and Functions), 15 with exclusivity in Work Risks and 5 in Public Transport of Passengers. The remaining 111 entities are engaged in operations of other Asset Damage Insurance, or they do “Mixed” operations (that is, they cover both Asset and Personal Insurance).

The reinsurance market operates with 28 local reinsurers. The composition of the market consists of 19 national entities and 9 branches of foreign entities. On the other hand, 4 insurance companies are authorized to operate in active reinsurance. The reinsurance market is complemented by 77 Reinsurers Admitted. Intermediation in the market is undertaken by insurance advisors (individuals and legal entities) and reinsurance intermediaries that total the 31,600 agents. Individual Producers are 31,016, while the number of Enabled Societies is 562. The number of employees of insurers has increased gradually to 30,300.

During 2016, the Insurance Market generated revenue of Ps.153,000 million, of which more than 82% correspond to Property Damage Insurance, and the rest to People Insurance. Automobile insurance revenue totaled Ps.55,000 million (23% more than in 2015), followed by the Risks of Labor with a volume of more than 43,000 million pesos. Regarding people’s insurance, the main operation was registered in the collective life sector, with an operation that reached 17.6 billion pesos and increased 17% over the previous year.

The sector operates with total assets of approximately Ps.230 billion and liabilities of approximately US\$183 billion, which reflects a total net worth of more than Ps.46.6 billion. The entire structure shows an increase of 16% over the previous year.

Superintendency of Insurance

Insurance companies in Argentina are regulated by Argentine Law No. 20,091, as amended (the “Insurance Companies Law”) and by regulations issued by the Superintendency of Insurance. The Superintendency of Insurance is the regulatory and supervisory authority over insurance companies and insurance brokers in Argentina. Insurance companies are required to file annual and quarterly financial statements and to provide the Superintendency of Insurance with a complete and detailed analysis of their financial condition. The Superintendency of Insurance also conducts periodic examinations of the affairs of insurance companies. The Superintendency of Insurance’s supervisory powers include:

- authorization of insurance companies to operate specific insurance lines of business and the insurance plans and terms and conditions of their policies;
- approval of insurance companies’ bylaws;
- evaluation of the solvency and insurance expertise of insurance companies’ shareholders, directors and Syndics; determination, with general and uniform criteria, of minimum capital and reserve requirements; oversight of the financial condition of insurance companies; regulation of the category and amount of permitted investments of insurance companies; authorization of mergers of insurance companies and assignment of insurance portfolios; and
- impose fines on or suspend or revoke the licenses of insurance companies and oversight of the liquidation of insurance companies.

In accordance with the Insurance Companies Law, only those insurance companies (whether local or foreign) which have been granted licenses by the Superintendency of Insurance are entitled to carry out insurance activities in Argentina. Those companies may be: (i) Argentine private entities, in the form of corporations (*sociedades anónimas*), cooperatives (*sociedades cooperativas*) or mutual insurance companies (*sociedades de seguros mutuos*); (ii) branches or representative offices of foreign companies of the type described in (i) above; or

(iii) federal, provincial or municipal governmental entities. The Privatization Law, however, explicitly permitted us to provide insurance for risks associated with our lending activities until August 2007.

Effective October 1, 1998, the Superintendency of Insurance permitted the incorporation of new insurance companies. The issuance of new insurance licenses was suspended between 1977 and 1994, and has been permitted in limited circumstances since 1994. The transfer of stock of local insurance companies is subject to the approval of the Superintendency of Insurance. There are no restrictions on foreign ownership of local insurance companies. Recently issued regulations also require newly formed companies to provide specific information about the company's shareholders.

Individuals, properties and any insurable interests within Argentine jurisdiction cannot be insured by companies which have not been approved by the Superintendency of Insurance. Insurance policies issued in violation of this requirement will subject the insured and the broker to fines up to 25 times the amount of the premium.

Required Reserves

The Superintendency of Insurance requires that companies which conduct insurance operations, including us, maintain certain reserves depending on their lines of business and policies issued. The reserves are determined primarily pursuant to two criteria, claims and premiums.

Claim-related reserves have two principal forms: occurrences and "claims reported but not registered" ("RBNR"). The reserve for occurrences relates to claims filed but not yet paid, and it is based on a reasonable estimation of future amounts to be paid based on the insurance company's knowledge of the claims reported by its insured. The RBNR reserve is intended to account for filed claims which have not yet been registered on the accounting records of the company. This reserve may be estimated based on historical information or subsequent review, if possible. A third form of claim-related reserves, for liabilities incurred but not reported ("IBNR"), is used by Argentine insurance companies, including us and is required by the Superintendency of Insurance. IBNR is an estimate of amounts expected to be paid for claims not yet filed, typically based on historical information of the company or market data.

There are also three forms of premium-related reserves: ongoing risks reserve, mathematical reserve and sufficiency of premiums. Ongoing risks reserve is maintained for those areas of activity in which policies cover a short time period (usually less than a year), and an up-front premium is paid for the entire coverage period. Ongoing risks reserve is intended to cover risks related to coverage which extends beyond the applicable accounting period. The ongoing risks reserve essentially allows income to be distributed over different fiscal periods, since the income generated by premiums paid in the applicable fiscal year cannot cover risks beyond such period. The mathematical reserve is created for long-term contracts (typically life insurance) in which the risk increases over time. In order to avoid charging borrowers premiums which increase incrementally, premiums are maintained constant, but include a percentage intended to cover future risks, which is deemed a reserve. The mathematical reserve also allows the company to amortize a portion of the premium income received.

In its Resolution No. 28,906/02, the Superintendency of Insurance determined that insurance providers are obligated to maintain a reserve, in order to cover any deficit that could exist for insufficiency of premiums. The determination of this reserve is calculated by the sum of all revenue generated (*i.e.*, premiums paid and earnings on investments) minus all expenses incurred (*i.e.*, claims paid, administrative expenses, etc.) during the immediately preceding 12 months. We currently maintain reserves at or above the levels prescribed in this resolution.

Minimum Capital Requirements

Pursuant to regulations enacted in April 1998, both insurance companies existing as of October 1, 1998 and insurance companies incorporated thereafter are required to comply with new minimum capital requirements. The required minimum capital for both existing and newly incorporated companies is the greatest of the amount determined by taking into account the line of insurance business, premiums and overcharges, and claims paid and accrued.

Line of Business

Insurance companies are subject to minimum capital requirements based on their business lines ranging from Ps.1.5 million to Ps.10 million and can reach Ps.15 million in case of joint development of different business lines.

Premiums Collected

For all insurance companies, the minimum capital requirement based on premiums collected is equal to (i) a specified percentage of premiums collected during the prior fiscal year, multiplied by (ii) the ratio between net and gross claims paid during the prior three fiscal years, which ratio cannot be less than 0.5. With respect to more recently formed companies, the foregoing formula will be adjusted to take into account the period during which each company has been in existence.

Claims Paid

For all insurance companies, the minimum capital requirement based on claims paid is equal to (i) a specified percentage of the sum of claims paid plus claims accrued over the last three fiscal years, divided by three, multiplied by (ii) the ratio between net and gross claims paid during the prior fiscal year, which ratio cannot be less than 0.5. With respect to more recently formed companies, the foregoing formula will be adjusted to take into account the period during which each company has been in existence.

Individual life insurance companies without savings coverage must have minimum capital determined pursuant to procedures specified in the insurance regulations mentioned above. Individual life insurance with savings coverage must have minimum capital determined pursuant to a special procedure depending on premiums and overcharges and claims, in all cases as specified in the insurance regulations.

Deficit in Minimum Capital

In the event of a deficit in the minimum capital, insurance companies may be requested, depending on the circumstances, to report to the Superintendency of Insurance within five business days, and to eliminate the deficit within 15 business days, or to submit a restructuring plan providing for elimination of the deficit through one of the following procedures: (i) capital contributions; (ii) merger; (iii) administration by a third party with a purchase or a merger option; (iv) assignment of the portfolio; and (v) exclusion of certain assets and liabilities from the insurance company and assignment, for consideration, of such assets to other insurance company or to a trust.

If an insurance company fails to meet the minimum capital requirements, the Superintendency of Insurance may attach the property of the company or order the company to refrain from writing new business pending compliance with the minimum requirements.

Prohibited Activities

Insurance companies cannot, among other prohibitions:

- co-own assets without prior authorization of the Superintendency of Insurance;
- integrate other companies, except investments in companies with public offering and within the framework of the regulation parameter;
- incur liens upon their real property other than to secure the purchase price pursuant to the conditions established by the Superintendency of Insurance;
- issue debt securities, promissory Notes (*pagarés*) or drafts;
- pay claims with drafts or promissory Notes;
- borrow funds from a bank, other than subordinated debt subject to Superintendency of Insurance regulations, unless previously authorized by the Superintendency of Insurance in transitory situations of lack of liquid assets; and
- guarantee third-party obligations except in the case of approved insurance operations.

Reinsurance

Since 1992 and until 2011 most insurance companies in the Argentine insurance market had reinsurance from foreign reinsurance companies through a broker duly registered with the Superintendency of Insurance. However, since 2011 reinsurance with foreign companies is only admitted by the Superintendency of Insurance as an exception in specific cases and provided certain requirements are met both by the insurance and the reinsurance companies.

Reinsurance companies must comply with the minimum capital requirements described in the insurance regulations.

Liquidation

Voluntary Liquidation

If an insurance company voluntarily chooses to liquidate, liquidation procedures may be validly carried out by the company's management, although the Superintendency of Insurance maintains the right to oversee the liquidation process. If the company does not commence liquidation procedures immediately, or if the interest of the company's insured could be harmed in any way, the Superintendency of Insurance may take control of the liquidation procedure after obtaining an order from a court of competent jurisdiction.

Involuntary Liquidation

If liquidation results from revocation of the insurance license, the Superintendency of Insurance will require its appointment as liquidator by a court of competent jurisdiction. In addition, any court of competent jurisdiction may, upon request of an interested party, declare the dissolution of an insurance company and order its liquidation by the Superintendency of Insurance; *provided* that certain conditions for dissolution are met. Insurance companies cannot make use of reorganization procedures provided for in the Argentine Bankruptcy Law.

DESCRIPTION OF THE NOTES

General

The Notes may be issued under indentures and/or agency agreements executed from time to time by us with entities acting as trustees and/or agents. Such trustees and/or agents will act only with respect to the series specified in the applicable pricing supplement and will have such rights and obligations as set forth therein. The appointment of trustees and agents will be set out in the applicable pricing supplement.

The creation of the Program was approved by resolution of our General Ordinary and Extraordinary Shareholders' Meeting dated May 23, 2008 and resolution of our board of directors dated February 9, 2011, which resolution also approved a reduction in the original approved amount of US\$2,000,000,000 (or its equivalent in pesos) to US\$500,000,000 (or its equivalent in pesos). In addition, our board of directors approved a resolution increasing the amount of the Program up to US\$800,000,000 on May 6, 2015. Furthermore, our board of directors approved a resolution increasing the amount of the Program up to US\$1,000,000,000 on June 15, 2016. Finally, on November 9, 2016, our board of directors approved a resolution increasing the amount of the Program up to US\$1,500,000,000. The extension of the duration of our Program through July 28, 2021, was approved by our shareholders at our shareholders' meeting on April 13, 2016 and by resolution of our board of directors on May 11, 2016.

The Notes may be issued from time to time in one or more series. The Notes of all series outstanding at any one time under the Program are limited to an aggregate principal amount of US\$1,500,000,000 (or its equivalent in pesos). The particular terms of each issue of Notes, including, without limitation, the date of issue, issue price, currency of denomination and payment, maturity, interest rate or interest rate formula, if any, and, if applicable, redemption, repayment and index provisions, will be set forth for such issue in the Notes and described in the pricing supplement applicable to such tranche and/or series. With respect to any particular Note, the description of the Notes herein is qualified in its entirety by reference to, and to the extent inconsistent therewith is superseded by, such Note and the applicable pricing supplement.

The Notes issued under this Program will constitute *obligaciones negociables simples no convertibles* under Argentine law and will be issued pursuant to, and in compliance with, all of the requirements of, the Negotiable Obligations Law and any other applicable Argentine laws and regulations. Unless otherwise specified in the applicable pricing supplement, the Notes will constitute our unsecured and unsubordinated obligations and will rank at least *pari passu* in right of payment with our other unsecured and unsubordinated indebtedness (other than obligations preferred by statute or operation of law, including deposits). If so specified in the applicable pricing supplement, we may issue subordinated Notes in accordance with the Central Bank Accounting Rules then applicable, that will rank junior in right of payment to our secured indebtedness and, to the extent set forth therein, certain of its unsecured and unsubordinated indebtedness (as well as obligations preferred by statute or by operation of law). For further information, see “—Ranking”.

Unless previously redeemed, a Note will mature on the date no less than 30 days from its date of issue (the “Stated Maturity”) as specified on the face thereof and in the applicable pricing supplement.

Each note may be denominated in any currency (a “Specified Currency”) as shall be specified on the face thereof and in the applicable pricing supplement. Unless otherwise specified in the applicable pricing supplement, payments on each Note will be made in the applicable Specified Currency; provided that in certain circumstances, as may be described in the applicable pricing supplement, payments on any such Note denominated in a currency other than U.S. dollars may, to the extent permitted by Argentine law, be made in U.S. dollars or in other currencies. See “—Payment of Principal and Interest”.

Each Note will bear interest, if any, at the interest rate or interest rate formula set forth in the applicable pricing supplement. Unless otherwise indicated in the applicable pricing supplement, each Note may bear interest at a fixed rate (a “Fixed Rate Note”) or at a rate determined by reference to an interest rate basis or other interest rate formula (a “Floating Rate Note”) or may bear no interest (a “Zero-Coupon Note”). See “—Interest Rate”.

The Notes may also be issued with principal and/or interest payable, to the extent permitted by Argentine law, in one or more currencies different from the currency in which such Notes are denominated (“Dual Currency Notes”) or linked to an index and/or a formula (“Indexed Notes”). Dual Currency Notes and Indexed Notes may be issued to bear interest on a fixed or floating rate basis or on a non-interest bearing basis or a combination of such bases, in which case provisions relating to Fixed Rate Notes, Floating Rate Notes, Zero-Coupon Notes or a

combination thereof, respectively, shall, where the context so admits, apply to such Dual Currency or Indexed Notes. References herein to notes denominated in a Specified Currency shall, unless the context otherwise requires, include Dual Currency Notes payable in such Specified Currency.

The Notes may be issued as Original Issue Discount Notes. An “Original Issue Discount Note,” including any Zero-Coupon Note, is a note which is issued at a price lower than the principal amount thereof, and which provides that upon redemption or acceleration of the Stated Maturity thereof, the amount payable to the holder of such note will be determined in accordance with the terms of such note, and will be an amount that is less than the amount payable on the Stated Maturity of such Note. For further information, see “Taxation”.

Unless otherwise specified in the applicable pricing supplement, the Notes will not be subject to any sinking fund and will not be redeemable prior to their Stated Maturity, except in the event of certain changes involving Argentine taxes. See “—Redemption and Repurchase—Redemption for Taxation Reasons”.

The applicable Pricing Supplement may provide for the creation of a sinking fund for a tranche or series, which may be created to secure payment of such Notes. The sinking fund’s composition and raising method, as applicable, will be specified in the applicable Pricing Supplement.

If permitted by applicable law and the corresponding pricing supplement we may, from time to time, without the consent of and/or notice to, holders of any outstanding Notes, issue further Notes of the same series if they have the same terms and conditions as the Notes of such series in every respect (except for the issue date, the issue price, the applicable legends and, if applicable, the first interest payment) and the other Notes will ultimately constitute a single series with the previously outstanding Notes in that series, *provided, however*, that if additional Notes are not fungible with the previously outstanding Notes for U.S. federal income tax purposes, such additional Notes will be issued under a separate identification code from the previously outstanding Notes.

Program Duration

The Program’s duration is five years from July 28, 2016.

Form and Denomination

The Notes will be issued in the denominations specified in the pricing supplement applicable to each tranche or series. It is noted that the Bank shall comply with the minimum amount set forth by the Central Bank, through Communication “A” 5034, as amended, which is currently of Ps.1,000,000, as per the changes introduced to the definition of Qualified Investors under Communication “A” 5841.

Pursuant to Law No. 24,587 of *Nominatividad de los Títulos Valores Privados*, Argentine companies are not allowed to issue certificated securities in bearer form unless authorized by the CNV, which securities should be placed by means of a public offering in Argentina and be represented by global or individual securities, registered or deposited with a common depository system authorized by the CNV. Therefore, for as long as the provisions of Law No. 24,587 of *Nominatividad de los Títulos Valores Privados* are in effect, we will only issue registered, non-endorsable Notes or Notes deposited with a custodian or clearing system, not exchangeable for bearer certificated Notes, as set forth in the applicable Pricing Supplement.

In the event that the Notes are offered in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act, such will be represented by one or more Rule 144A Global Notes. In the event that the Notes are offered in reliance on Regulation S, such will be represented by one or more Regulation S Global Notes. If the Notes are offered in markets other than the United States, such will be placed in compliance with applicable laws of such markets.

Replacement of Notes

Notes that become mutilated, destroyed, stolen or lost will, pursuant Section 1852 of the Argentine Civil and Commercial Code, be replaced upon delivery to us and the trustee (if one is appointed by us) of evidence of the loss, theft or destruction thereof satisfactory to us. In the case of a lost, stolen or destroyed Note, an indemnity satisfactory to us may be required at the expense of the holder of such Note before a replacement Note will be issued. Upon the issuance of any new Note, we may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including fees and expenses of our counsel and agents) in connection with the replacement.

Definitive and Temporary Notes

Temporary Notes may be exchanged for definitive Notes, in the denominations set forth in each opportunity, as specified in the applicable pricing supplement. All temporary Notes will be identified as such and will make reference to the noteholder's right to exchange them for definitive Notes, as well as the manner in which such exchange will be made.

Ranking

The Notes will constitute *obligaciones negociables simples no convertibles en acciones* under the Capital Markets Law, CNV Rules and the Negotiable Obligations Law, and will be entitled to the benefits set forth therein and subject to the procedural requirements established therein. In particular, pursuant to Section 29 of the Negotiable Obligations Law, if we default in the payment of any amounts outstanding under the Notes of any series, the holder of such Notes will be entitled to file a summary action ("*acción ejecutiva*") in Argentina for collection of such amount.

Unless otherwise specified in the applicable pricing supplement, the Notes will constitute unsecured, unsubordinated obligations and will rank at least *pari passu* in right of payment with our other unsecured and unsubordinated indebtedness (other than obligations preferred by statute or operation of law, including deposits). These general conditions may be superseded, enlarged and/or supplemented in the applicable pricing supplement relating to each tranche and/or series, always safeguarding investors' interests.

Specifically, pursuant to the Financial Institutions Law, all of our existing and future depositors will have a general priority over the holders of Notes issued under this Program. The Financial Institutions Law provides that, in the event of judicial liquidation or bankruptcy, all depositors, whether individuals or legal entities, and whichever the type, amount or currency of their deposits, would have general and absolute priority over any other of our creditors (including the holders of the Notes), except for certain labor and secured creditors. In addition, the depositors would have priority over all the other creditors, save for certain labor creditors, over the funds in possession of the Central Bank as reserves, other funds existing at the date when our authorization is revoked and the proceeds of the mandatory transfer of our assets, as determined by the Central Bank.

If so specified in the applicable pricing supplement, we may issue subordinated Notes that will rank junior in right of payment to our unsubordinated indebtedness, in accordance with the applicable laws.

In addition, except with respect to labor claims and claims secured by a pledge or mortgage, the holders of any type of deposits will have a priority over (i) the funds held by the Central Bank as reserves, (ii) other existing funds held by the Central Bank as reserves, (iii) other funds existing on the date when our authorization is revoked and (iv) the proceeds generated from the mandatory transfer of our assets as determined by the Central Bank to be paid in the following order of priority to our remaining creditors: (a) deposits of up to Ps.350,000 per person or corporation (considering all amounts of such person/corporation deposited in one financial institution) or its equivalent amount in foreign currency, with priority right granted to one person per deposit (in the case of more than one account holder, the amount is pro-rated among such account holders); (b) any deposits greater than Ps.350,000 or its equivalent in foreign currency, for the amounts exceeding such sum; and (c) liabilities derived from credit facilities granted to us, which directly affect international trade. Also, under Section 53 of the Financial Institutions Law, any claims of the Central Bank will have priority over any other creditors, except for creditors secured by a pledge or mortgage, certain labor creditors and depositors (in the terms set forth above), facilities granted pursuant to the Central Bank's Charter (rediscounts granted to financial institutions in the event of a temporary lack of liquidity, advances to financial institutions under a bond, bond assignment, pledge or special assignment of certain assets), and facilities granted by the Argentine Bank Liquidity Fund and secured by a pledge or mortgage collateral.

Interest Rate

General

Each Fixed Rate Note or Floating Rate Note will bear interest from (and including) the issue date or such other date (the "Interest Commencement Date") specified in the applicable pricing supplement or from the most recent Interest Payment Date (or, if such Note is a Floating Rate Note and the Interest Reset Period is daily or weekly, from the day following the most recent Interest Reset Date) (as each such term is defined below) to which interest on such Note has been paid or duly provided for at the fixed rate per annum, or at the rate per annum determined pursuant to the interest rate formula, stated in the applicable pricing supplement, until the principal thereof is paid or made available for payment. Interest will be payable on the date or dates specified in the

applicable pricing supplement (an “Interest Payment Date”) and at Stated Maturity or upon redemption or acceleration, as specified under “—Payment of Principal and Interest” below.

Each Note bearing interest will bear interest at either (i) a fixed rate or (ii) a variable rate determined by reference to an interest rate basis (including LIBOR (a “LIBOR Note”), the Treasury Rate (a “Treasury Rate Note”) or such other interest rate basis as is set forth in the applicable pricing supplement, including but not limited to LEBAC’s discount rate, BADLAR rate and/or CER rate, and in compliance with the applicable Argentine laws and regulations), which may be adjusted by adding or subtracting the Spread and/or multiplying by the Spread Multiplier. The “Spread” is the number of basis points specified in the applicable pricing supplement as being applicable to the interest rate for such note, and the “Spread Multiplier” is the percentage specified in the applicable pricing supplement as being applicable to the interest rate for such Note. A Floating Rate Note may also have either or both of the following as specified in the applicable pricing supplement: (i) a maximum numerical interest rate limitation, or ceiling, on the rate of interest which may accrue during any interest period (a “Maximum Rate”) and (ii) a minimum numerical interest rate limitation, or floor, on the rate of interest which may accrue during any interest period (a “Minimum Rate”).

The referred general conditions on Interest Rate may be superseded, modified and/or supplemented in the applicable pricing supplement relating to each tranche and/or series, always safeguarding the investors’ interests.

We use the following general definitions throughout this section:

“*BADLAR*” means the average of the interest rates offered for fixed term operations over a million pesos by private banking entities for a term of between 30 and 35 days. This rate is published by the Central Bank in its web site.

“*Business Day*” means, unless otherwise defined in the applicable pricing supplement, any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in New York City or Buenos Aires City; *provided* that, with respect to notes denominated in a Specified Currency other than U.S. dollars, it is also not a day on which commercial banks are authorized or required by law, regulation or executive order to close in the principal financial center of the country issuing the Specified Currency (or, if the Specified Currency is the Euro, such day is also a day on which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET) System is open, (a “TARGET Settlement Date”)); *provided further* that, with respect to a LIBOR Note, it is also a London Banking Day.

“*CER*” means a daily adjustment index issued by the Central Bank which reflects the rate of inflation. This calculation is based on the registered fluctuation of the Consumer Prices Index which is issued by the National Institute of Statistics and Censuses.

“*London Banking Day*” means any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

“*Index Maturity*” means, with respect to a Floating Rate Note, the period to maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable pricing supplement.

The trustee and the calculation agent for the Global Notes (the “Calculation Agent”) with respect to the Floating Rate Notes will be specified in the applicable pricing supplement.

Fixed Rate Notes

Fixed Rate Notes will bear interest from (and including) the Interest Commencement Date specified in the applicable pricing supplement at the rate or rates per annum so specified (the “Fixed Rate(s) of Interest”) payable in arrears on the Interest Payment Date(s) in each year and on the Stated Maturity or upon redemption or acceleration. The first payment of interest will be made on the Interest Payment Date following the Interest Commencement Date and, if the period from the Interest Commencement Date to the Interest Payment Date differs from the period between subsequent Interest Payment Dates, will equal the “Initial Broken Amount” specified in the applicable pricing supplement. If the Stated Maturity is not an Interest Payment Date, interest from and including the preceding Interest Payment Date (or the Interest Commencement Date, as the case may be) to (but excluding) the Stated Maturity will equal the “Final Broken Amount” specified in the applicable pricing supplement.

Floating Rate Notes

General

The pricing supplement relating to a Floating Rate Note will designate an interest rate basis (the “Interest Rate Basis”) for such Floating Rate Note. The Interest Rate Basis for each Floating Rate Note will be: (i) LIBOR, in which case such Note will be a LIBOR Note; (ii) the Treasury Rate, in which case such Note will be a Treasury Rate Note; or (iii) such other interest rate basis as is set forth in such pricing supplement including but not limited to LEBAC’s discount rate, BADLAR rate and/or CER rate. The pricing supplement for a Floating Rate Note will also specify, if applicable, the Calculation Agent, the Index Maturity, the Spread and/or Spread Multiplier, the Maximum Rate, the Minimum Rate, the Regular Record Dates and the Initial Interest Rate, the Interest Payment Dates, the Calculation Dates, the Interest Determination Dates, the Interest Reset Period and the Interest Reset Dates (each as defined below) with respect to such Note.

The interest rate on each Floating Rate Note will be reset and become effective daily, weekly, monthly, quarterly, semiannually, annually or otherwise, as specified in the applicable pricing supplement (each an “Interest Reset Period”); *provided* that (i) the interest rate in effect from the date of issue to the first Interest Reset Date with respect to a Floating Rate Note will be the initial interest rate as set forth in the applicable pricing supplement (the “Initial Interest Rate”) and (ii) unless otherwise specified in the applicable pricing supplement, the interest rate in effect for the ten days immediately prior to the Stated Maturity of a Note will be that in effect on the tenth day preceding such Stated Maturity. The dates on which the rate of interest will be reset (each an “Interest Reset Date”) will be specified in the applicable pricing supplement. If any Interest Reset Date for any Floating Rate Note would otherwise be a day that is not a Business Day with respect to such Floating Rate Note, the Interest Reset Date for such Floating Rate Note will be postponed to the next day that is a Business Day with respect to such Floating Rate Note, except that, in the case of a LIBOR Note, if such Business Day is in the next succeeding calendar month, such Interest Reset Date will be the preceding Business Day.

The “Interest Determination Dates” will be as set forth below, unless otherwise specified in the applicable pricing supplement, always safeguarding the investors’ interests. The Interest Determination Date pertaining to an Interest Reset Date for a LIBOR Note (the “LIBOR Interest Determination Date”) will be the second Business Day preceding such Interest Reset Date. The Interest Determination Date pertaining to an Interest Reset Date for a Treasury Rate Note (the “Treasury Interest Determination Date”) will be the day of the week in which such Interest Reset Date falls and on which Treasury bills would normally be auctioned. Treasury bills are usually sold at auction on the Monday of each week, unless that day is a legal holiday, in which case the auction is usually held on the following Tuesday, except that such auction may be on the preceding Friday. If, as the result of a legal holiday, an auction is so held on the preceding Friday, such Friday will be the Treasury Interest Determination Date pertaining to the Interest Reset Date occurring in the next succeeding week. If an auction date falls on any Interest Reset Date for a Treasury Rate Note, then such Interest Reset Date will instead be the first Business Day immediately following such auction date.

All percentages resulting from any calculations referred to in this offering memorandum will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (e.g., 9.876545% (or 0.09876545) being rounded to 9.87655% (or 0.0987655)), and all Specified Currency amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent rounded upward) or nearest equivalent in Specified Currencies other than U.S. dollars. In addition to any Maximum Rate which may be applicable to any Floating Rate Note pursuant to the above provisions, the interest rate on Floating Rate Notes will in no event be higher than the maximum interest rate permitted by applicable law.

Upon the request of the holder of any Floating Rate Note, the relevant Calculation Agent will provide the interest rate then in effect, and, if determined, the interest rate which will become effective on the next Interest Reset Date with respect to such Floating Rate Note. The relevant Calculation Agent’s determination of any interest rate will be final and binding in the absence of a manifested error.

Upon our request, the relevant Calculation Agent will cause notice of the interest rate and the amount of interest for each interest period and the relevant Interest Payment Date to be given to us (and, as applicable, to the trustee, if so determined in the applicable pricing supplement) as soon as possible after their determination but in no event later than the fourth Business Day thereafter and, in the case of Notes listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market, no later than the first day of the

relevant Interest Reset Period, and otherwise within 30 days of the relevant Payment Date. Such notice will be in accordance with the provisions of the Notes relating to notices to holders of Notes. See “—Notices”. The amount of interest and the Interest Payment Date may subsequently be amended (or appropriate alternative arrangements may be made by way of adjustment) without notice in the event of an extension or shortening of the Interest Reset Period.

The manner in which the interest rate for any Floating Rate Note that is not a LIBOR Note or a Treasury Rate Note will be determined as set forth in the applicable pricing supplement.

LIBOR Notes

LIBOR Notes will bear interest at the interest rates (calculated with reference to LIBOR and the Spread and/or Spread Multiplier, if any, subject to the Maximum Rate or the Minimum Rate, if any), and will be payable on the dates, specified on the face of the LIBOR Note and in the applicable pricing supplement.

LIBOR with respect to any Interest Reset Date will be determined by the Calculation Agent in accordance with the following provisions. On the relevant LIBOR Interest Determination Date, LIBOR will be determined on the basis of either of the following, as specified in the applicable pricing supplement:

- (i) the offered rates for deposits in the Specified Currency having the specified Index Maturity, commencing on the next succeeding Interest Reset Date, which appear on the display designated as page “LIBOR01” or “LIBOR02” as applicable, on the Reuters Monitor Money Rates Service (or such other page as may replace such pages on that service for the purpose of displaying London interbank offered rates of major banks for deposits in the Specified Currency) (each a “Reuters Screen LIBOR Page”) as of 11:00 A.M., London time, on such LIBOR Interest Determination Date. If at least two such offered rates appear on the Reuters Screen LIBOR Page, LIBOR with respect to such Interest Reset Date will be the arithmetic mean of such offered rates as determined by the Calculation Agent. If fewer than two offered rates appear, LIBOR with respect to such Interest Reset Date will be determined as described in (iii) below; or
- (ii) the offered rates for deposits in the Specified Currency having the specified Index Maturity, commencing on the next succeeding Interest Reset Date, which appear on the display designated as page “BBAM1” on the Bloomberg Service (or such other page as may replace such page on that service for the purpose of displaying London interbank offered rates of major banks for deposits in the Specified Currency) (each, a “Bloomberg Page”) as of 11:00 A.M., London time, on such LIBOR Interest Determination Date. If no such offered rate appears, LIBOR with respect to such Interest Reset Date will be determined as described in (iii) below.

If neither a Reuters Screen LIBOR Page nor Bloomberg is specified in the applicable pricing supplement, LIBOR will be determined as if a Reuters Screen LIBOR Page had been so specified.

- (iii) With respect to a LIBOR Interest Determination Date on which fewer than two offered rates for the applicable Index Maturity appear on a Reuters Screen LIBOR Page as described in (i) above, or on which no rate appears on the Bloomberg page as described in (ii) above, as applicable, LIBOR will be determined on the basis of the rates at approximately 11:00 A.M., London time, on such LIBOR Interest Determination Date at which deposits in the Specified Currency having the specified Index Maturity are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by us commencing on the second Business Day immediately following such LIBOR Interest Determination Date and in a principal amount equal to an amount of not less than US\$1 million (or its approximate equivalent in a Specified Currency other than U.S. dollars) that in our judgment is representative for a single transaction in such market at such time (a “Representative Amount”). The Calculation Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two such quotations are provided, LIBOR with respect to such Interest Reset Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, LIBOR with respect to such Interest Reset Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., New York City time, on such LIBOR Interest Determination Date by three major banks in New York City, selected by the Bank, for loans in the Specified Currency to leading European banks having the specified Index Maturity commencing on the Interest Reset Date and in a Representative Amount; *provided* that if fewer than three banks selected as

aforesaid by us are quoting as mentioned in this sentence, LIBOR with respect to such Interest Reset Date will be LIBOR in effect on such LIBOR Interest Determination Date.

Treasury Rate Notes

Treasury Rate Notes will bear interest at the interest rates (calculated with reference to the Treasury Rate and the Spread and/or Spread Multiplier, if any, subject to the Maximum Rate or Minimum Rate, if any) and will be payable on the dates specified in the applicable pricing supplement. The “Calculation Date” with respect to a Treasury Interest Determination Date will be the tenth day after such Treasury Interest Determination Date or, if any such day is not a Business Day, the next succeeding Business Day, unless the applicable pricing supplement provides for changes that afford increased protection of investors’ interests.

Unless otherwise indicated in the applicable pricing supplement and in such case to the extent that the investors’ interests are safeguarded, “Treasury Rate” means, with respect to any Interest Reset Date, the rate for the auction on the relevant Treasury Interest Determination Date of direct obligations of the United States (“Treasury Bills”) having the Index Maturity specified in the applicable pricing supplement, as such rate appears on the display of (i) Reuters Monitor Money Rates Service (or any successor service) on page “RTRTSY1” or “RTRTSY2,” as applicable (or any other pages as may replace such pages), or (ii) Bloomberg Services (or any successor service) on page “BTMM” or “PX1,” as applicable (or any other pages as may replace such pages). In the event that such rate does not appear on any such page by 3:00 p.m., New York City time, on the Calculation Date pertaining to such Treasury Interest Determination Date, then the Treasury Rate for such Interest Reset Date shall be the rate on such date as published in H.15 Daily Update under the heading “U.S. government securities—Treasury bills— Auction high”. In the event that the foregoing rates do not so appear or are not so published by 3:00 p.m., New York City time, on the Calculation Date pertaining to such Treasury Interest Determination Date, then the Treasury Rate for such Interest Reset Date shall be the “Investment Rate” (expressed as a bond equivalent yield, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) as announced by the United States Department of the Treasury for the auction held on such Treasury Interest Determination Date, currently available on the worldwide web at: <http://www.publicdebt.treas.gov/AI/OFBills> or such website as may replace it in the future. In the event that the results of the auction of Treasury Bills having the Index Maturity specified on the face of the Note and in the applicable pricing supplement are not published or reported as provided above by 3:00 p.m., New York City time, on such Calculation Date or if no such auction is held on such Treasury Interest Determination Date, then the Treasury Rate shall be calculated by the Calculation Agent and shall be the rate for such Treasury Interest Determination Date for the issue of Treasury Bills with a remaining maturity closest to the specified Index Maturity (expressed as a bond equivalent yield, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) as published in H.15(519) under the heading “U.S. government securities—Treasury bills (secondary market)”. In the event that the foregoing rates do not so appear or are not so published by 3:00 p.m., New York City time, on the Calculation Date pertaining to such Treasury Interest Determination Date, then the Treasury Rate for such Interest Reset Date shall be the rate for such Treasury Interest Determination Date for the issue of Treasury Bills with a remaining maturity closest to the specified Index Maturity, as published in H.15 Daily Update or another recognized electronic source used for the purpose of displaying such rate under the heading “U.S. government securities—Treasury bills (secondary market)”. In the event that the foregoing rates do not so appear or are not so published by 3:00 p.m., New York City time, on the Calculation Date pertaining to such Treasury Interest Determination Date, then the Treasury Rate shall be calculated by the Calculation Agent and shall be a yield to maturity (expressed as a bond equivalent yield, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the arithmetic mean of the secondary market bid rates, at approximately 3:30 p.m., New York City time, on such Treasury Interest Determination Date, quoted by three leading United States government securities dealers selected by us for the issue of Treasury Bills with a remaining maturity closest to the specified Index Maturity; provided that if the dealers selected are not quoting as mentioned in this sentence, the Treasury Rate for such Interest Reset Date shall be the Treasury Rate in effect on such Treasury Interest Determination Date.

Payment of Principal and Interest

General

Interest (and principal, if any, payable other than at Stated Maturity or upon acceleration or redemption) will be payable in immediately available funds to the person in whose name a Note is registered at the close of business on the Regular Record Date next preceding each Interest Payment Date notwithstanding the cancellation of such Notes upon any transfer or exchange thereof subsequent to such Record Date and prior to such Interest Payment Date; *provided* that interest payable at Stated Maturity or upon acceleration or redemption will be payable

to the person to whom principal will be payable; *provided further* that if and to the extent we default in the payment of the interest (including Additional Amounts) due on such Interest Payment Date, such defaulted interest (including Additional Amounts) will be paid to the person in whose names such Notes are registered at the end of a subsequent record date established by us by notice given via mail to the holders of the Notes not less than 15 days preceding such subsequent record date, such record date to be not less than 15 days preceding the date of payment in respect of such defaulted interest. Unless otherwise specified in the Note or the applicable pricing supplement, the first payment of interest on any Note originally issued between a Regular Record Date and an Interest Payment Date will be made on the Interest Payment Date following the next succeeding Regular Record Date to the registered owner at the close of business on such next succeeding Regular Record Date. Unless otherwise indicated in the applicable pricing supplement and in such case to the extent that the investors' interests are safeguarded, the "Regular Record Date" with respect to any Note will be the date 15 calendar days prior to each Interest Payment Date, whether or not such date will be a Business Day.

Payment of principal of and any premium, interest, Additional Amounts and other amounts on or in respect of any Registered Note at Stated Maturity or upon early redemption or acceleration will be made in immediately available funds to the person in whose name such note is registered upon surrender of such note at the specified office of any other Paying Agent or, as applicable, the offices of the trustee specified in the applicable pricing supplement; *provided* that the Registered Note is presented to the Paying Agent in time for the Paying Agent to make such payments in such funds in accordance with its normal procedures. Payments of principal of and any premium, interest, Additional Amounts and other amounts on or in respect of Registered Notes to be made other than at Stated Maturity or upon redemption will be made by check mailed on the due date for such payments to the address of the person entitled thereto as it appears in the Register; *provided* that (i) the applicable Depositary, as holder of the Global Notes, shall be entitled to receive payments of interest by wire transfer of immediately available funds, (ii) a holder of US\$1 million (or the approximate equivalent thereof in a Specified Currency other than U.S. dollars) in aggregate principal or face amount of Notes of the same series shall be entitled to receive payments of interest by wire transfer of immediately available funds to an account maintained by such holder at a bank located in the United States as may have been appropriately designated by such person to us in writing no later than 15 days prior to the date such payment is due and (iii) to the extent that the holder of a Registered Note issued and denominated in a Specified Currency other than U.S. dollars elects to receive payment of principal and interest at Stated Maturity or upon early redemption in such Specified Currency, such payment, except in circumstances described in the applicable pricing supplement, shall be made by wire transfer of immediately available funds to an account specified in writing not less than 15 days prior to Stated Maturity by the holder to us.

Payments of interest on any Fixed Rate Note or Floating Rate Note with respect to any Interest Payment Date will include interest accrued to, but excluding, such Interest Payment Date; *provided* that, unless otherwise specified in the applicable pricing supplement, if the Interest Reset Dates with respect to any Floating Rate Note are daily or weekly, interest payable on such Note on any Interest Payment Date, other than interest payable on the date on which principal on any such Note is payable, will include interest accrued to but excluding the day following the next preceding Interest Reset Date.

With respect to a Floating Rate Note, accrued interest from the date of issue or from the last date to which interest has been paid is calculated by multiplying the principal or face amount of such Floating Rate Note by an accrued interest factor. Such accrued interest factor is computed by adding the interest factor calculated for each day from the date of issue, or from the last date to which interest has been paid, to but excluding the date for which accrued interest is being calculated. The interest factor (expressed as a decimal) for each such day is computed by dividing the interest rate (expressed as a decimal) applicable to such date by 360, in the case of LIBOR Notes, or by the actual number of days in the year, in the case of Treasury Rate Notes.

Interest on Fixed Rate Notes will be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed, or according to the interest rate convention set forth in the applicable pricing supplement.

If any Interest Payment Date (other than the Stated Maturity) for any Floating Rate Note would otherwise be a day that is not a Business Day in the relevant locations specified in the pricing supplement and the place of payment, such Interest Payment Date will be the next Business Day succeeding such Business Day (except that, in the case of a LIBOR Note, if such Business Day is in the next succeeding calendar month, such Interest Payment Date will be the next Business Day preceding such Business Day). If the Stated Maturity for any Fixed Rate Note or Floating Rate Note or the Interest Payment Date for any Fixed Rate Note falls on a day which is not a Business Day

in the relevant locations specified in the pricing supplement and the place of payment, payment of principal (and premium, if any) and interest with respect to such Note will be made on the next succeeding Business Day in the place of payment with the same force and effect as if made on the due date and no interest on such payment will accrue from and after such due date.

Specified Currency Other than U.S. Dollars

If any Note is to be denominated in a Specified Currency other than U.S. dollars, certain provisions with respect thereto will be set forth in the applicable pricing supplement, which will specify the foreign currency or currency unit in which the principal or any premium or interest with respect to such Note is to be paid, along with any other terms relating to the non-U.S. dollar denomination.

If we offer Indexed Notes or Dual Currency Notes, the applicable pricing supplement and such Indexed Notes or Dual Currency Notes will set forth the method by and the terms on which the amount of principal (payable on or prior to Stated Maturity), interest and/or any premium will be determined, any additional tax consequences to the holder of such Note, a description of certain risks associated with investment in such Note and other information relating to such Note.

Notes denominated in a Specified Currency other than U.S. dollars, unless otherwise specified in the applicable pricing supplement and in such case to the extent that the investors' interests are safeguarded, will provide that, in the event of an official redenomination of the Specified Currency, our obligations with respect to payments on such notes will, in all cases, be deemed immediately following such redenomination to provide for payment of that amount of the redenominated Specified Currency representing the amount of such obligations immediately before such redenomination.

If the principal of or any premium, interest, Additional Amounts or other amounts on any Note are payable in a Specified Currency other than U.S. dollars and such Specified Currency is not available due to the imposition of exchange controls or other circumstances beyond our control, or is no longer used by the government of the country issuing such currency or for settlement of transactions by public institutions of or within the international banking community, we will be entitled, to the extent permitted by Argentine law, to satisfy our obligations to the holder of such Notes by making such payment in U.S. dollars on the basis of (i) in the case of interest payments, the Exchange Rate Agent's bid (U.S. dollar offer) quotation for such Specified Currency, and, in the case of principal payments, the Exchange Rate Agent's offer (U.S. dollar bid) quotation for such Specified Currency, in each case at or prior to 11:00 a.m., New York City time, on the second Business Day next preceding the applicable payment date or the date by which the U.S. Dollar Equivalent must be determined, or (ii) if no such rate is quoted for any reason, the rate determined by the Exchange Rate Agent based on an average of quotations given to the Exchange Rate Agent by commercial banks which conduct foreign exchange operations, or based on such other method as the Exchange Rate Agent may reasonably determine to calculate a market exchange rate, on the second Business Day next preceding the applicable payment date or the date by which the U.S. Dollar Equivalent must be determined (such rate determined as set forth in clauses (i) and (ii) above, the "Exchange Rate"). In the event that the Exchange Rate is not available on the second Business Day next preceding the applicable payment date, the rate at which the amount due shall be converted into U.S. dollars shall be such rate as may be agreed to at such time by us and the Exchange Rate Agent. Unless otherwise specified, the exchange rate agent (the "Exchange Rate Agent") with respect to notes denominated in a Specified Currency other than U.S. dollars will be specified in the applicable pricing supplement.

Payments of principal and any premium, interest, Additional Amounts or other amounts to holders of a Note denominated in a Specified Currency other than U.S. dollars who hold the Note through DTC will, to the extent permitted by Argentine law, be made in U.S. dollars. However, any DTC holder of a Note denominated in a Specified Currency other than U.S. dollars may elect to receive payments by wire transfer in such Specified Currency other than U.S. dollars by delivering a written notice to the DTC participant through which it holds its beneficial interest, not later than the Regular Record Date, in the case of an interest payment, or at least 15 calendar days before the Stated Maturity, specifying wire transfer instructions to an account denominated in the Specified Currency. The DTC participant must notify DTC of the election and wire transfer instructions on or before the twelfth Business Day before the applicable payment of principal.

If so specified in a Note denominated in a Specified Currency, other than U.S. dollars, and the applicable pricing supplement, and except as provided in the following paragraph, payments of principal and any premium, interest, Additional Amounts or other amounts with respect to such Note will, to the extent permitted by Argentine

law, be made in U.S. dollars if the holder of such Note, on the relevant Regular Record Date or at Stated Maturity, as the case may be, has submitted a written request for such payment in U.S. dollars to us and the applicable Paying Agent on or prior to such Regular Record Date or the date that is fifteen days prior to the Stated Maturity, as the case may be. Such request may be in writing (mailed or hand delivered) or by facsimile transmission. Holders of Notes denominated in a Specified Currency other than U.S. dollars that are registered in the name of a broker or nominee should contact such broker or nominee to determine whether and how an election to receive payments in U.S. dollars may be made.

The U.S. dollar amount to be received by a holder of a Note denominated in a Specified Currency other than U.S. dollars who elects to receive payment in U.S. dollars will be based on the Exchange Rate on the second Business Day preceding the applicable payment date. If Exchange Rate quotations are available on the second Business Day preceding the date of payment of principal or any premium, interest, Additional Amounts or other amounts with respect to any note, such payment will be made in the Specified Currency. All currency exchange costs associated with any payment in U.S. dollars on any such Note denominated in a Specified Currency other than U.S. dollars will be borne by the holder thereof by deductions from such payment of such currency exchange being effected on behalf of the holder by the Exchange Rate Agent.

Unless otherwise specified in the applicable pricing supplement, (i) a Note denominated in Euro may only be presented for payment on a day on which the TARGET system is operating and (ii) if interest is required to be calculated for a period of less than one year, it will be calculated on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed fall in a leap year, the sum of (a) the number of those days falling in a leap year divided by 366 and (b) the number of those days falling in a non-leap year divided by 365).

Redemption and Repurchase

Redemption for Taxation Reasons

The Notes of any series may be redeemed at our choice in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' written notice (which will be irrevocable) to the holders and, if applicable, the CNV, in writing, at 100% of the principal amount thereof (or, in the case of Zero-Coupon Notes, at the Amortized Face Amount (as defined below) thereof), together with any accrued but unpaid interest and any Additional Amounts to the date fixed for redemption (which date, in the case of Floating Rate Notes, must be an Interest Payment Date), if, as a result of any change in, or amendment to, the laws (or any regulations or rules issued thereunder) of Argentina or any political subdivision of or any taxing authority in Argentina or any change in the application, administration or official interpretation of such laws, regulations or rules, including, without limitation, the holding of a court of competent jurisdiction, we have or will become obligated to pay Additional Amounts on or in respect of such Notes, which change or amendment becomes effective on or after the date of issuance of the Notes of such series, and we determine in good faith that such obligation cannot be avoided by taking reasonable measures available to us. The applicable pricing supplement will set forth the specific procedures for redemption of the Notes for tax reasons, which shall supersede, supplement and/or modify the terms and conditions described herein, always safeguarding the investors' interests.

In addition, any notices by us to the holders will also be made through the CNV's website (www.cnv.gob.ar) as a "Material Event".

Redemption at our Option

We may, subject to compliance with all relevant laws and regulations, having given (unless otherwise specified in the applicable pricing supplement) not more than 60 nor less than 30 days' notice to the holders of the Notes in accordance with the provisions governing the giving of notices set forth below (which notice will be irrevocable) and to the Trustee (17 days prior to the delivery of such notice to the holders) and, if applicable, the CNV, redeem all or only some of the Notes then outstanding on the dates (the "Optional Redemption Date(s)") and at the amounts (the "Optional Redemption Amount(s)") specified in, or determined in the manner specified in, the applicable pricing supplement together with accrued interest (if any) to the date fixed for redemption (which date, in the case of Floating Rate Notes, must be an Interest Payment Date).

In the event of a redemption of only some Notes of a series, such redemption must be of a principal amount being the "Minimum Redemption Amount" or a "Higher Redemption Amount," in each case if so indicated in the applicable pricing supplement. In the case of a partial redemption of Certificated Notes, such Notes to be redeemed will be determined on a pro rata basis, by lot, or otherwise in accordance with the procedures of the depositary, not

more than 60 days prior to the date fixed for redemption. In the case of a partial redemption of Notes which are represented by a Global Note, the relevant notes will be selected in accordance with the rules of the relevant clearing system or systems, as the case may be. If the Notes are listed on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF Market or on any other authorized market and the rules of the Luxembourg Stock Exchange or such other authorized market so require, as applicable, we will, once in each year in which there has been a partial redemption of the Notes, cause to be published in a leading newspaper of general circulation in Luxembourg or as specified by such other authorized markets a notice specifying the aggregate principal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered. The applicable pricing supplement will set forth the specific procedures for redemption of the Notes at our option, which shall supersede, supplement and/or modify the terms and conditions of the procedures described herein, always safeguarding the investors' interests.

In addition, any notices by us to the holders will also be made through the CNV's website (www.cnv.gob.ar) as a "Material Event".

Redemption at the Option of the Holder

If expressly specified in the applicable pricing supplement, upon the holder of any Note giving to us not more than 60 nor less than 30 days' notice in accordance with the provisions governing the giving of notices set forth below, which notice shall be irrevocable, we will, subject to compliance with all relevant laws and regulations, upon the expiry of such notice, redeem such note at such terms and price as specified in the applicable pricing supplement on the Optional Redemption Date and at the Optional Redemption Amount specified in or determined in the manner specified in the applicable pricing supplement, in whole but not in part, together with accrued interest (if any) to the date fixed for redemption.

Partial redemption will be made on a pro rata basis, by lot, or otherwise; *provided* that the applicable pricing supplement will set forth the specific procedures for redemption of the Notes that may be issued, which shall supersede, supplement and/or modify these general terms and conditions, always safeguarding the investors' interests. In addition, any notices by us to the holders will also be made through the CNV's website (www.cnv.gob.ar) as a "Material Event".

Only the registered holder of a Global Note can exercise a right to repayment in respect thereof. In order to ensure that such entity will timely exercise a right to repayment with respect to a particular Note, the beneficial owners of such Notes must instruct the broker or other direct or indirect participant through which it holds an interest in such Note to notify DTC, Euroclear or Clearstream, as the case may be, of its desire to exercise a right to repayment. Different firms have different deadlines for accepting instructions from their customers and, accordingly, each beneficial owner should consult the broker or other direct or indirect participant through which it holds an interest in a Note in order to ascertain the deadline by which such an instruction must be given in order for timely notice to be delivered to DTC, Euroclear or Clearstream, as the case may be. The applicable pricing supplement will set forth the specific procedures for redemption of the Notes at the option of the holder, which shall supersede, supplement and/or modify the terms and conditions of the procedures described herein, always safeguarding the investors' interests.

In addition, any notices by us to the holders will also be made through the CNV's website (www.cnv.gob.ar) as a "Material Event".

Redemption of Zero-Coupon Notes

In the event of acceleration of maturity or redemption prior to maturity of a Zero-Coupon Note, the amount payable thereon in lieu of the principal amount due at the Stated Maturity will be the amount (the "Amortized Face Amount") equal to the sum of (i) the issue price (as defined in "Taxation") of such Note and (ii) the product of the accrual yield specified in the applicable pricing supplement (compounded annually) and the issue price from (and including) the issue date to (but excluding) the Optional Redemption Date (or, in the case of an early redemption for taxation reasons, the date fixed for redemption) and computed in accordance with generally accepted U.S. bond yield computation principles, but in no event will the Amortized Face Amount exceed the principal amount of such Note due at Stated Maturity thereof. The applicable pricing supplement will set forth the specific procedures for redemption of the Zero-Coupon Notes, which shall supersede, supplement and/or modify the terms and conditions of the procedures described herein, always safeguarding the investors' interests.

In addition, any notices by us to the holders will also be made through the CNV's website (www.cnv.gob.ar) as a "Material Event".

Repurchase of Notes

We and our Subsidiaries may at any time purchase or otherwise acquire any Note in the open market or otherwise at any price and may resell or otherwise dispose of such Note at any time; *provided* that in determining at any time whether the holders of the requisite principal amount of the Notes outstanding have given any request, demand, authorization, direction, notice, consent or waiver, Notes then owned by us or any of our subsidiaries will be disregarded and deemed not outstanding.

Cancellation

Any Notes redeemed in full by us will be immediately canceled and may not be reissued or resold.

If notice of redemption has been given in the manner set forth herein and in the applicable pricing supplement, a series of Notes to be redeemed will become due and payable on the redemption date specified in such notice, and upon presentation and surrender of the Notes at the place or places specified in such notice, the Notes will be paid and redeemed by us at the places and in the manner and currency therein specified and at the redemption price therein specified together with accrued interest and Additional Amounts, if any, to the redemption date. From and after the redemption date, if monies for the redemption of Notes called for redemption will have been made available at the corporate trust office of the Trustee for redemption on the redemption date, the notes called for redemption will cease to bear interest (and, in the case of Original Issue Discount Notes, cease to increase the Amortized Face Amount payable in respect thereof), and the only right of the holders of such Notes will be to receive payment of the redemption price together with accrued interest and Additional Amounts, if any, to the redemption date as aforesaid.

Additional Amounts

Unless otherwise set forth in the applicable pricing supplement, all taxes, duties, rates, contributions, withholdings, transfer expenses, charges and/or liens that may be levied on the acts, contracts and transactions related to the issue, subscription, placement and enforcement of the Notes of each tranche and/or series will be fully and exclusively borne by us. All payments of principal, premium or interest by us in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, penalties, fines, duties, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of Argentina, or any political subdivision thereof or any authority therein having power to tax ("Taxes"), unless we are compelled by law to deduct or withhold such Taxes. In any such event, subject to certain exceptions, we will pay such additional amounts ("Additional Amounts") in respect of Taxes as may be necessary to ensure that the amounts received by holders of such Notes after such withholding or deduction will equal the respective amounts that would have been receivable in respect of such Notes in the absence of such withholding or deduction. The Additional Amounts shall be regarded to all effects as an amount payable under the Notes, except that no Additional Amounts will be paid on the amounts outstanding under any of the Notes in the following cases:

- (i) when such Taxes would not have been imposed but for the fact that the holder or beneficial owner of the Note has a present or former connection with Argentina other than the mere holding of such Note and the receipt of any payments in respect thereof or enforcement of rights in respect thereof;
- (ii) when such Taxes would not have been imposed but for the failure of the holder or beneficial owner of the Notes to comply with any certification, identification, information or reporting requirements regarding the nationality, residence, identity or connection with Argentina of such holder or beneficial owner, as required by us at least thirty (30) days before the applicable interest payment date or principal payment date, as applicable, if such compliance is required by the laws or regulations of Argentina or any political subdivision or tax authority thereof as a precondition to exemption from, or reduction in the rate of, such Taxes;
- (iii) in respect of any estate, inheritance, gift, sales, transfer, personal assets or similar tax, assessment or other governmental charge;
- (iv) to or on behalf of a holder or beneficial owner of Notes in respect of Argentine taxes payable other than by withholding from payment of principal of, premium, if any, or interest on the Notes;

- (v) in respect of Taxes imposed by reason of the fact that Notes were presented for payment more than thirty (30) days after the later of the date on which such payment became due and the date on which payment thereof has been duly provided for and notice of such payment is given to the holders, except to the extent that the holder of such Notes would have been entitled to such Additional Amounts had such Notes been presented on any day during such 30-day period;
- (vi) in respect of any Taxes imposed under Sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended (or any amended or successor version of such Sections that is substantively comparable and not materially more onerous to comply with) (“FATCA”), any regulations or other guidance thereunder, any agreement (including any intergovernmental agreement) entered into in connection therewith, or any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA or an intergovernmental agreement in respect of FATCA; or
- (vii) any combination of items (i) to (vi) above;

nor will additional amounts be paid with respect to any payment of the principal of, or any premium, if any, or interest on, any Notes to any holder or beneficial owner of Notes who is a fiduciary or partnership or other pass-through entity or other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of Argentina to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or other pass-through entity or beneficial owner who would not have been entitled to such Additional Amounts had it been the holder of such Notes.

Listing and Trading

The Notes may be listed in one or more markets authorized by the CNV. To this end, we may apply to have the Notes listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and to be listed on the BYMA through the BCBA including in any other authorized market in Argentina or abroad. However, the Bank cannot assure you that these applications will be accepted. Additionally, Notes may be issued under this Program which are not listed on any market, and the pricing supplement related to a class of Notes will specify whether the Notes of such class will be listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market or to be listed on the BYMA through the BCBA or any other stock exchange or market authorized by the CNV in Argentina or abroad.

Transfer Restrictions

We have not registered the Notes under the Securities Act; therefore, the Notes may not be transferred except in compliance with certain transfer restrictions. See “Transfer Restrictions”.

Registration Rights

If so specified in the applicable pricing supplement, we may grant registration rights to the holders of any series of Notes.

Meetings, Modification and Waiver

Noteholders’ meetings may be called and held at any time to deal with and resolve upon any matters subject to the noteholders’ authority. Such meetings will be held in compliance with the provisions of the Negotiable Obligations Law, the CNV Rules and other laws in force. The notice, quorum, majorities and further aspects of such meetings will be governed by such laws.

Repayment of Monies; Prescription

Claims against us for the payment of principal (including Additional Amounts) of, or interest on, the Notes must be made within five and two years, respectively, from the due date for payment thereof.

Covenants

We may assume covenants in connection with each series and/or tranche of Notes to be issued under the Program, which will be specified in the applicable pricing supplement relating to each series and/or tranche.

Events of Default

Unless otherwise specified in the applicable pricing supplement relating to a series of Notes, it shall be an event of default with respect to the Notes of such series if the following events (each an “Event of Default”) shall have occurred and be continuing:

- (i) we shall fail to pay any principal or interest (or Additional Amounts, if any) on the Notes on the date when it becomes due and payable in accordance with the terms thereof, and such failure continues for a period of ten (10) days (in the case of principal) or fifteen (15) days (in the case of interest or Additional Amounts, if any);
- (ii) we shall fail to pay at the final scheduled maturity thereof our indebtedness in a past due aggregate principal amount exceeding US\$50,000,000 (or the then equivalent thereof in another currency at the time of determination) and said event of default continues to exist after the terms established in (i) above; or any other event of default occurs under any agreement relating to any such indebtedness in a past due aggregate principal amount of at least US\$50,000,000 (or the equivalent thereof at the time of determination) which results in the acceleration of the final scheduled maturity of such indebtedness;
- (iii) (a) a court having jurisdiction enters a final decree or order appointing an administrator, receiver or trustee in respect to all or a substantial portion of the Bank’s assets and, in each case such final decree or order remains unstayed and in effect for a period of ninety (90) consecutive days or (b) the Central Bank (x) initiates a proceeding in accordance with Article 34, 35 or 35 (bis) of the Financial Institutions Law requesting the Bank for the presentation of a plan in accordance with such Article or (y) orders a temporary, total or partial suspension of all or substantially of our activities pursuant to Article 49 of the Central Bank’s charter;
- (iv) we (a) file a voluntary case seeking liquidation or other relief in accordance with the Financial Institutions Law, the Argentine Bankruptcy Law or any other applicable law regarding bankruptcy, insolvency or other similar law currently or in the future in force, (b) accepts the appointment or the possession by an administrator, receiver or trustee of the Bank in respect to all or a substantial portion of the Bank’s assets, or (c) executes any assignment in benefit of the creditors in general; or it becomes illegal to the Bank the performance or fulfillment of the payment obligations by virtue of the Notes of each series and/or tranches.

Then, the holders of not less than 25% of the aggregate principal amount of the Notes of such series, by written notice to the Bank, may declare all the Notes of such series or tranches then outstanding to be immediately due and payable; provided that in the Events of Default set forth in clause (iii) and (iv) of the present offering memorandum, regarding the Bank, all the Notes shall, without the need to notify the Bank or to perform any other act by the Trustee (in the event of its appointment) or any holder of any Notes, become payable and enforceable immediately; provided also that none of the facts or circumstances detailed above shall constitute an Event of Default if they arise or in any other way are related with Indebtedness outstanding on the date of the indenture agreement dated January 14, 2004. In the event an Event of Default set forth in clause (ii) above should have occurred and is continuing with respect to the Notes of any series, such Event of Default will be automatically rescinded and annulled once the event of default or payment default triggering such Event of Default pursuant to clause (ii) is remedied or cured by us or waived by the holders of the relevant indebtedness. No such rescission and annulment will affect any subsequent Event of Default or impair any right consequent thereto.

Upon any such declaration of acceleration, the principal of the Notes so accelerated and the interest accrued thereon and all other amounts payable with respect to such Notes will become and be immediately due and payable. If the Event of Default or Events of Default giving rise to any such declaration of acceleration are cured following such declaration, such declaration may be rescinded by the holders of such Notes.

Paying Agents; Transfer Agents; Registrars

The Notes may be issued or not under indentures and/or agency agreements entered into from time to time by us with entities acting as trustees and/or agents. Such trustees and/or agents will perform their duties only with respect to the series specified in the applicable pricing supplement and will have such rights and obligations as therein specified. The appointment of trustees and agents will be set out in the applicable pricing supplement, who shall be identified in the last page of the applicable pricing supplement.

Notices

Notices to holders of Notes will be deemed to be validly given if published for one day in the BCBA's Gazette and through the CNV's website (www.cnv.gob.ar) as a "Material Event" for as long as the Notes of any tranche and/or series are listed on the BCBA, or in the applicable reporting body of the authorized market where the notes are listed, and to the extent required by law, in the Official Gazette of the Republic of Argentina ("Official Gazette"). If the Notes of any tranche and/or series are not authorized to be listed on authorized markets, notices may be sent to their holders, at our option, by publications made for one day in a wide circulation newspaper of the relevant jurisdiction or if the notice should be sent to only some of the holders, individually at the domiciles recorded in the applicable register relating to the tranche and/or series in question. Any such notices will be deemed given on the day following the last date on which publication was made and/or received. The cost of any publication and/or notice will be borne by us.

Judgment Currency Indemnity

If a judgment or order given or made by any court for the payment of any amount in respect of any Note is expressed in a currency (the "judgment currency") other than the currency (the "denomination currency") in which such notes are denominated or in which such amount is payable, we will indemnify the relevant holder against any deficiency arising or resulting from any variation in rates of exchange between the date as of which the amount in the denomination currency is notionally converted into the amount in the judgment currency for the purposes of such judgment or order and the date of actual payment thereof. This indemnity will constitute a separate and independent obligation from the other obligations contained in the terms and conditions of the Notes, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due in respect of the relevant note under any such judgment or order.

Summary Action

Pursuant to Section 29 of the Negotiable Obligations Law, the Notes that qualify as *obligaciones negociables* entitle their holders to file a summary action ("*acción ejecutiva*"); therefore, in accordance with the Capital Markets Law, any depositary is entitled to issue certificates evidencing the Notes represented by global securities to any beneficial holder. These certificates entitle their beneficial holders to file a legal action before any competent court of Argentina, including a summary action, to enforce collection of any sums outstanding under the Notes.

Governing Law

The Negotiable Obligations Law sets forth the requirements for the Notes to qualify as *obligaciones negociables* thereunder, and such law, together with the Argentine Companies Law, as amended, and other Argentine laws and regulations, will govern our capacity and corporate authority to execute and deliver the Notes and the CNV's authority for the creation of the Program and the offer of the Notes in the Argentina.

Notwithstanding the foregoing, all matters related to the Notes may be governed and construed by the laws of the State of New York or by Argentine law, or by the laws of any other jurisdiction, in each case as set forth in the applicable pricing supplement. Information concerning judgment, jurisdiction, service of process, waiver of immunities will be set forth in the applicable pricing supplement.

Jurisdiction

If the Notes are listed on BYMA, we will irrevocably submit to the jurisdiction of the Court of General Arbitration of the BCBA for matters arising in connection with the Notes, by delegation of authority granted by the BYMA regarding constitution of arbitration tribunals, in accordance with the provisions of Resolution No. 18,629 of the CNV. In accordance with Article 46 of the Capital Markets Law, holders may submit their disputes regarding the Notes to the non-exclusive jurisdiction of the Arbitral Tribunal of the BCBA, or any other tribunal to be created in the future in accordance with Article 46 of the Capital Markets Law, or the judicial commercial courts of the City of Buenos Aires, at the sole option of the holders. In turn, in cases where the current rules provide for the accumulation of actions brought for the same purpose before a single court, the accumulation will be made before the judicial tribunal. Notwithstanding the foregoing, we irrevocably submit to the non-exclusive jurisdiction of the competent courts based in the City of Buenos Aires, including ordinary courts for commercial matters, or if applicable, to any court set forth in the relevant pricing supplement.

SUBSCRIPTION AND SALE

Subject to the terms and conditions set out in a purchase agreement to be entered into (the “Purchase Agreement”), among us and the several dealers, the Notes may be offered from time to time by us through the dealers. We may pay the corresponding dealer a commission for sales made through by as the dealer.

We may also sell Notes to the dealers as principal for their own accounts at a discount or commission to be agreed upon. In addition, the Notes may be sold from time to time through a syndicate of financial institutions, for which a dealer shall act as lead manager (a “Lead Manager”). Such Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the corresponding dealer.

We have reserved the right to sell Notes directly on our own behalf, in which case no commissions will be payable with respect to any such sale.

We have agreed to indemnify the dealers against certain liabilities and reimburse certain expenses.

The applicable pricing supplement will set out the terms of the offer of any Notes, including the purchase price of such Notes and the use of the proceeds of such sale, any subscription discount or concession allowed or reallocated or paid to the dealers, any securities market where such Notes are listed and any restriction on the sale and delivery of Notes. The placement methods to be used will be determined upon placement of each tranche and/or series in accordance with the applicable laws then in effect, and will be detailed in the applicable pricing supplement.

We reserve the right to withdraw, cancel or modify any offer of Notes contemplated herein or in any pricing supplement, by publishing a notice in the same media through which such offering of Notes has been announced and in one wide circulation newspaper of Argentina. We may reject offers to purchase Notes in part; *provided* that such rejection is made ratably. In the event that dealers are appointed, each dealer will be entitled to reject in part any offer to purchase Notes received in its capacity as agent; *provided* that it does so ratably.

Any dealer and/or agent involved in the distribution of Notes may be regarded as an underwriter, and any discount or commission received by them for the sale or resale of Notes may be regarded as underwriting discounts and commissions in accordance with the Negotiable Obligations Law. Agents and/or dealers may be our clients, conduct business or provide services to us or its affiliates in the ordinary course of business.

Unless otherwise provided in the applicable pricing supplement, the dealers and their affiliates participating in an offering of Notes may engage in transactions that stabilize, maintain or otherwise affect the market price of the Notes. Such transactions may include stabilization transactions effected in accordance with Rule 104 of Regulation M under the Securities Act, pursuant to which such persons may bid for or purchase Notes for the purpose of stabilizing their market price. The dealers also may create a short position for their respective accounts by selling more Notes in connection with such an offering than they are committed to purchase from us, and in such case may purchase Notes in the open market following completion of an offering of Notes to cover all or a portion of such short position. Any of the transactions described in this paragraph may result in the maintenance of the price of the Notes at a level above that which might otherwise prevail in the open market. None of the transactions described in this paragraph is required, and, if any is undertaken, it may be discontinued at any time.

In connection with the issuance of Notes, as soon as the Notes are placed in the secondary market, the dealers may enter into transactions aimed at stabilizing the market price of the Notes only through computerized trading systems and under segments that guarantee price/time priority and match buyers and sellers guaranteed by the stock exchange and/or clearing house if applicable in accordance with the Capital Markets Law and Article 11 of Section III of Chapter IV, Title VI of CNV Rules on “*Reglamentación de Operaciones de Estabilización del Mercado*” (which are an integral part of CNV Rules by virtue of CNV’s General Resolution 662/2016). Under that article, stabilization transactions must abide by the following conditions:

A. The offering memorandum drafted for the public offering must include a warning to investors describing the possibility of conducting stabilization transactions, their duration and conditions.

B. Stabilization transactions may only be conducted by the dealers who have taken part in the organization and coordination of the issue’s placement and distribution efforts.

C. It is only within the term of 30 calendar days that starts the day following the commencement of secondary trading efforts that stabilization transactions may be conducted.

D. Stabilization transactions may be aimed at avoiding or moderating sudden alterations in the price of the Notes that were subject to primary placement efforts by application of the book building system, the auction system or the public call for bids system.

E. None of the stabilization transactions conducted within the term during which stabilization transactions are authorized may be conducted for prices higher than those traded in the markets as part of transactions consummated between parties that are not related to organization, placement and distribution activities.

F. The dealers who conduct transactions pursuant to the terms and conditions established herein must report to the markets the details required for identifying these transactions. The markets are under a duty to publicize stabilization transactions, either on a case-by-case basis or at the end of each trading day.

United States

Offerings Outside the United States

The Notes have not been and will not be registered under the Securities Act and cannot be offered or sold within the United States or to, or for the account or benefit of, U.S. persons unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. Terms used in this paragraph have the meanings given to them by Regulation S.

Each dealer has agreed or will agree that, except as permitted by the Purchase Agreement, it will not offer, sell or deliver Notes within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes of a series as certified to us, and that it will have sent to each dealer to which it sells Notes prior to such 40th day a confirmation or other notice setting forth the restrictions on offers and sales of such Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the completion of the distribution of the Notes of a series, an offer or sale of Notes of such series within the United States by a dealer that is not participating in the offering of such series may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than under an applicable exemption from registration under the Securities Act.

Offerings Within the United States

The Notes offered and sold within the United States are not being registered under the Securities Act and are being offered and sold in reliance upon the exemption from registration provided by section 4(2) thereof, which exempts transactions by an issuer not involving any public offering.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A, and each such purchaser of Notes is hereby notified that dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. To the extent that we are not subject to or do not comply with the reporting requirements of section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g-3-2(b) thereunder, we have agreed to furnish to holders of the Notes and to prospective purchasers designated by such holders, upon request thereby, such information as may be required by Rule 144A.

Any purchaser of Notes must have sufficient knowledge and experience in business matters to be capable of evaluating the merits and risks of investing in and holding Notes and be liable to bear the economic risk of the investment for an indefinite period of time because the Notes have not been registered under the Securities Act. There is no undertaking to register the Notes, and they cannot be sold unless they are subsequently registered or an exemption from such registration requirement is available. There can be no assurance that the Notes will be sold, or that there will be a secondary market for the Notes.

Each series of Notes will also be subject to such additional United States selling restrictions as we and the relevant dealer or dealers may agree to and as indicated in the applicable pricing supplement. Each of the dealers has agreed or will agree that it will offer, sell or deliver such Notes only in compliance with such additional selling restrictions.

Argentina

The creation of the Program and the public offering have been authorized by the CNV pursuant to Resolution No. 16,573, dated May 24, 2011, and the increase in the amount of the Program was authorized by Resolution No. 17,805 dated September 9, 2015; *provided* that any updates of or amendments to the information

included in this offering memorandum, including the annual updating required by the CNV, must be approved before any additional offer of Notes is made using such updated or amended offering memorandum. In addition, CNV approved an extension in the effective term and the increase in the amount of the Program pursuant to its Resolution No. 18,145 adopted on July 28, 2016 and a new extension of its amount by Resolution No. 18,493 dated February 2, 2017.

Each series and/or tranche of Notes issued under the Program will be placed by auction and/or public call for bids and/or book-building in the manner determined in the applicable pricing supplement pursuant to the CNV rules. In any case, the placement procedure must ensure full transparency and must be thoroughly defined and publicized before it starts. The primary placement of negotiable instruments that relies on auction and/or call for bid procedures must be conducted through computerized platforms offered by the exchanges that CNV authorizes so far as the requirements imposed by the rules and regulations governing such markets have been satisfied. Book-building mechanics may be applied by placement agents abroad when the placement of negotiable instruments is also scheduled to take place in another country or in other countries and in so far as these countries are subject to regulatory requirements that satisfy, in the opinion of CNV, internationally recognized standards in these matters and thus ensure compliance with any and all applicable CNV rules and regulations. Foreign placement agents must designate a CNV-registered trading agent and/or settlement and clearing agent to act in their name in Argentina for receiving local indications of interest. Pricing supplements and subscription notices to be published must include indications of the placement system to be used as well as the parameters employed in determining price (or any other financial variables) and the guidelines for the allotment of negotiable instruments.

In addition, placement of the Notes in Argentina shall take place in accordance with the provisions of the General Resolution No. 622/2013, as amended, issued by CNV and all other CNV Rules, by any of the following actions, among others: (i) publication of a summary of the terms and conditions of this offering memorandum, any offering memorandum supplement and the applicable pricing supplement in the disclosure system of the market where the Notes are listed and/or traded; (ii) distribution of this offering memorandum, any offering memorandum supplement and the applicable pricing supplement to the public in Argentina; (iii) road shows in Argentina addressed to potential investors; and (iv) conference calls with potential investors in Argentina, among other actions to be taken, which shall be described in the relevant pricing supplement. The pricing supplement shall include detailed information on placement efforts to be used in accordance with the Capital Markets Law and the CNV Rules. It is set forth that in order to subscribe for the Notes to be issued in the framework of this Program, interested parties shall submit any such information or documents as they are required or requested in compliance with, among others, the regulations governing money laundering originated in criminal acts and prevention of money laundering in the capital markets issued by the UIF. This offering memorandum shall be made available to the general public in Argentina.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (as defined below) (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) no offer of Notes may be made to the public in that Relevant Member State other than:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the dealers; or
- in any other circumstances falling within article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require us or the dealers to publish a prospectus pursuant to article 3 of the Prospectus Directive or supplement a prospectus pursuant to article 16 of the Prospectus Directive.

This offering memorandum has been prepared on the basis that any offer of Notes in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this offering memorandum may only do so in circumstances in which no obligation arises for us or any of the dealers to publish a prospectus pursuant to article 3 of the Prospectus Directive in relation to such offer. Neither we nor the dealers have authorized, nor do they

authorize, the making of any offer of Notes in circumstances in which an obligation arises for us or the dealers to publish a prospectus for such offer.

For the purpose of the above provisions, the expression “an offer to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC, as amended.

United Kingdom

This offering memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Financial Promotion Order”), (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc”) of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (“FSMA”)) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

Notice to Canadian Investors

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment hereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with any offering of Notes.

Other Jurisdictions

No action has been or will be taken in any jurisdiction by us that would permit a public offering of Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this offering memorandum comes are required by us to comply with all applicable laws at their own expense.

TRANSFER RESTRICTIONS

The Notes have not been registered and will not be registered under the Securities Act, any U.S. state securities laws or the laws of any other jurisdiction, other than Argentina, and may not be offered or sold except pursuant to an effective registration statement or pursuant transactions exempt from, or not subject to, registration under the Securities Act and the securities laws of any other jurisdiction. Accordingly, as further specified in the applicable pricing supplement, the Notes will be offered and sold only:

- in the United States to QIBs in reliance on Rule 144A; and
- outside the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 in reliance on Regulation S.

Purchasers' Representations and Restrictions on Resale and Transfer

Each purchaser of Notes and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (i) a QIB and is aware that the sale to it is being made pursuant to Rule 144A or (ii) a non-U.S. person that is outside the United States;
- it acknowledges that the Notes have not been registered under the Securities Act or with any securities regulatory authority of any U.S. state or any other jurisdiction (other than Argentina) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- it understands and agrees that Notes initially offered in the United States to QIBs will be represented by a Global Note and that Notes offered outside the United States pursuant to Regulation S will be represented by an International Global Note;
- it will not resell or otherwise transfer any of such Notes except: (i) to us, (ii) within the United States to a QIB in a transaction complying with Rule 144A, (iii) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (iv) pursuant to another exemption from registration under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act;
- it agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes;
- it acknowledges that prior to any proposed transfer of Notes (other than pursuant to an effective registration statement or in respect of Notes sold or transferred either pursuant to Rule 144A or Regulation S) the holder of such Notes may be required to provide certifications relating to the manner of such transfer as provided in the applicable indenture or agency agreement, if any;
- it acknowledges that the Trustee, Registrar or transfer agent for the Notes of any series will not be required to accept for registration the transfer of any Notes acquired by it, except upon presentation of evidence satisfactory to us that the restrictions set forth herein have been complied with;
- it acknowledges that we, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the Notes are no longer accurate, it will promptly notify us and the initial purchasers; and
- if it is acquiring Notes of any series as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

Legends

The following is the form of restrictive legend which will appear on the face of the Rule 144A Global Note, and which will be used to notify transferees of the foregoing restrictions on transfer:

“This note has not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any U.S. state securities laws. The holder hereof, by purchasing this note, agrees for the benefit of the issuer that this note or any interest or participation herein may be offered, resold, pledged or otherwise transferred only (1) to the issuer, (2) so long as this note is eligible for resale pursuant to Rule 144A under the Securities Act (“Rule 144A”), to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) in accordance with Rule 144A, (3) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (4) pursuant to an exemption from registration under the Securities Act (if available) or (5) pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities laws of any state of the United States or other applicable jurisdiction. The holder hereof, by purchasing this note, represents and agrees that it shall notify any purchaser of this note from it of the resale restrictions referred to above.

This legend may be removed solely at the discretion and at the direction of the issuer”.

The following is the form of restrictive legend which will appear on the face of the Regulation S International Global Note and which will be used to notify transferees of the foregoing restrictions on transfer:

“This note has not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any U.S. state securities laws. The holder hereof, by purchasing this note, agrees that neither this note nor any interest or participation herein may be offered, resold, pledged or otherwise transferred in the absence of such registration unless such transaction is exempt from, or not subject to, such registration and in accordance with any applicable securities laws of any other applicable jurisdiction.

For further discussion of the requirements (including the presentation of transfer certificates) under the applicable indenture, agency agreement or other applicable agreement pursuant to which the Notes are issued to effect exchanges or transfers of interest in Global Notes and Certificated Notes, see “Description of the Notes”.

DESCRIPTION OF CAPITAL STOCK

Set forth below is a brief summary of certain significant provisions of our bylaws and of Argentine law and regulations concerning our capital stock. This description does not purport to be complete and is qualified by reference to the bylaws, Argentine law, and CNV Rules.

Our bylaws are governed by Argentine law and any action relating to enforcement of our bylaws or any shareholders' rights thereunder are required to be brought in an Argentine court. Under our bylaws, our term of duration is 100 years from the date of registration of our bylaws in the Public Registry of Commerce (until October 23, 2097).

Capital Stock

Pursuant to our bylaws, the issued capital stock of the Bank as of June 30, 2017 amounts to Ps.1,500,000,000, represented by 1,500,000,000 common, book-entry shares of Ps.1.00 par value per share. The capital stock issued for each Class of shares is:

Class A shares	Ps. 664,818,687
Class B shares.....	Ps. 57,009,279
Class C shares.....	Ps. 75,000,000
Class D shares	Ps. 703,172,034

During the months of December 2013 and April 2014, we have reported, based on the requirement under Decree No. 2127 of November 7, 2012 and Resolution No. 264 of June 18, 2013 from the Ministry of Economy and Public Finances, the conversion of Ordinary 'Class A' Shares equally Ordinary 'Class D' Shares, and its ownership transfer.

On February 14, 2007, the change of the nominal value in our shares came into effect, which did not implicate a change in our capital stock. In the ordinary and extraordinary shareholders' meetings, both held on July 21, 2006, our shareholders decided to maintain the subscribed and integrated capital of Ps.1,500,000,000, representing 1,500,000,000 ordinary shares. The shareholders also proceeded to register the shares at a nominal value of Ps.1 per share, each share entitled with one vote, with the exception of Class D shares which each have three votes per share.

All the issued shares are fully paid in. No change has taken place in the last year in relation to the quantity of shares. In addition, the capital stock has been fully paid-in. The capital stock has remained constant in the last three years and there has been a non-substantial variation in the number of shares that compose the different classes.

Pursuant to the Privatization Law and our bylaws, our capital stock is divided into the following classes of shares:

- Class A shares, which represent shares owned directly and indirectly by the Argentine government, and currently comprise 44.3% of our outstanding shares;
- Class B shares, which represent shares currently held by Banco Nación, as trustee for the PPP, but will be offered to our employees pursuant to the PPP, under the regime set forth by the Privatization Law, and which currently comprise 3.8% of our outstanding shares. Any Class B shares not acquired by our employees under the PPP shall be automatically converted into Class D shares;
- Class C shares, currently held by the Regional Infrastructure Federal Assistance Fund Trust Trustee, which was created to hold and represent Class C shares to be acquired by entities engaged in housing construction or real estate activities through a special program yet to be implemented, and which currently comprise 5% of our outstanding shares. Any Class C shares not acquired by those legal entities under the acquisition program shall be automatically converted into Class D shares; and
- Class D shares, which will represent any shares transferred under unlimited and unconditional ownership to the private capital not included in the foregoing categories of owners. Any Class A shares sold will be converted into Class D shares. Class D shares will not change their class if they are eventually subscribed or acquired by the Argentine government, another public company or personnel participating in the PPP, or by third parties under the Class C shares acquisition program. A certain number of Class D shares is held in the form of American Depositary Shares ("ADSs"). Class D shares currently comprise approximately 46.9% of our capital stock. 90,905,000 Class D shares,

representative of a 6.06% of our capital stock, is currently held in trust by First Trust of New York, as option trustee, which is held in trust for purposes of disposing, from time to time and throughout a period that ended on February 2, 2004, of the ADSs remaining after the exercise of the options, pursuant to the instructions received from the selling shareholder.

Since our Privatization Law was enacted, we have not increased our capital or issued new shares.

Voting Rights

General

As discussed below, holders of Class A and Class D shares have special voting rights relating to certain relevant corporate decisions. Whenever such special rights do not apply (with respect to Class A shares and Class D shares) and in all cases (with respect to Class B shares and Class C shares), each share of common stock entitles the holder to one vote. Pursuant to Rules of the CNV, once we have been authorized to make a public offering of any or all of our capital stock, we will not be allowed to issue multiple voting shares.

Within the framework of the Privatization Law, any action that would prejudice the rights of holders of a particular class of shares, but not the rights of holders of other classes of shares, or affect the rights of holders of a particular class of shares in a different manner than the rights of holders of other classes of shares, must be approved by the holders of such class of shares at an extraordinary shareholders' meeting.

We may issue voting or nonvoting preferred shares. Such preferred shares may be divided into Classes A, B, C and D. Holders of voting preferred shares will exercise voting rights and be subject to the same ownership, conversion and transfer restrictions as holders of common shares of the same class. We do not currently have preferred shares issued or outstanding.

Class A Shares

Holders of Class A shares have the right to elect at least two regular directors and two alternates, notwithstanding the number of shares comprising the class at any given time. The holders of Class A shares also have the right, as described in the following paragraph, to approve certain transactions involving us and certain acquisitions of shares. Class A shares sold by the Argentine government or the Assistance Trust Trustee are automatically converted to Class C or D shares, as the case may be. Under the Privatization Law and our bylaws, the Argentine government must always hold at least one Class A share. In addition, the Privatization Law also provides that the Argentine government will exercise the voting rights of Class A shares held by the Assistance Trust trustee.

Under our bylaws, the affirmative vote of the holders of Class A shares is required, regardless of the percentage of those shares in our capital stock, in order to:

- approve mergers or spin-offs;
- approve an acquisition of shares constituting a Control Acquisition and, therefore, and as a result we are subject to a control situation (as defined under the Argentine Companies Law, the Central Bank Accounting Rules or our bylaws);
- transfer to third parties a substantial part of our loan portfolio which causes us to cease or substantially reduce its residential loan and mortgage activities;
- change our corporate purpose;
- transfer our corporate domicile outside of Argentina; and
- voluntarily dissolve the Bank.

Class B Shares

Upon acquisition of Class B shares by our employees under the PPP, the holders of such shares will have the right to elect one member to the board of directors and one alternate, as long as such class represents more than 2% of our capital stock issued at the time the respective shareholders' meeting is convened. Until such time, such director will be elected by Class A shares. The Privatization Law provides that the Argentine government will exercise the voting rights of Class B shares prior to such shares being offered and sold. Class B shares acquired by our employees and thereafter transferred outside the PPP will be automatically converted to Class D shares. Any

Class B shares not acquired by our employees pursuant to the PPP (at the time of its implementation) will be converted into Class A shares. Each Class B share is entitled to one vote.

In November 13, 2012, a shared ownership program was implemented pursuant to Decree No. 2127/2012 and Resolution No. 264/2013 from the Ministry of Economy and Public Finance, whereby during the first stage 17,990,721 Class B shares of stock out of an aggregate number of 75,000,000 shares were converted into Class A shares to be allocated among the agents who have terminated their relationship with us in accordance with the implementing guidelines. The 17,990,721 shares shall become Class D shares at the time of delivery to the former agents.

As of June 30, 2017, such course of action was taken only in respect of 11,702,914 shares. The shares allocated to our personnel who are currently in service are Class B shares and fall within the scope of the shared ownership program.

Class C Shares

Upon transfer of Class C shares to companies engaged in housing construction or real estate activities, the holders of such shares will have the right to elect one regular director and one alternate, as long as such class represents more than 3% of our capital stock. Until such time, such directors will be elected by Class A shareholders. The Privatization Law provides that the Argentine government will exercise the voting rights of Class C shares held by the Assistance Trust Trustee prior to such shares being offered and sold. Only companies which have been engaged in housing construction or real estate activities for at least one year are eligible to purchase Class D shares. Class C shares transferred to persons other than companies engaged in housing construction or real estate activities will be converted automatically to Class D shares. Each Class C share is entitled to one vote.

Class D Shares

The holders of Class D shares shall have the right to elect nine directors and their respective alternates. In addition, for so long as Class A shares represent more than 42% of our capital, Class D shares shall be entitled to three votes per share, except that holders of Class D shares will be entitled to one vote per share in the case of a vote on:

- a fundamental change in our corporate purpose;
- a change of our domicile outside of Argentina;
- our dissolution prior to the expiration of our corporate existence provided in the bylaws;
- a merger or spin-off in which we are not the surviving corporation;
- a total or partial recapitalization following a mandatory reduction of capital; and
- approval of voluntary reserves other than legal reserves when their amount exceeds our capital stock and legal reserves.

In addition, irrespective of the percentage of our outstanding capital stock represented by Class A shares, the affirmative vote of the holders of Class A shares is required to adopt certain relevant decisions. See “—Class A Shares” for further information.

Class D Shares Underlying the ADSs Held by the Option Trustee

The Class D shares underlying the ADSs shares owned by the option trustee of the First Trust of New York shall be voted by the latter pursuant to the instructions received from the selling shareholder.

Registration Rights

Pursuant to a registration rights agreement, holders or beneficial owners of ADSs or Class D shares representing at least 3% of our outstanding stock (“Registerable Securities”) may require that the Bank, at our own cost, to file a registration statement with the SEC with respect to Class D shares or ADSs (a “Demand Registration Right”) and use our best efforts to cause the ADSs to be approved for listing on the New York Stock Exchange; except in the following cases when the ADSs or Class D shares have ceased to be Registerable Securities: (i) a registration statement with respect to the offering of such securities by the holder thereof shall have been declared effective under the Securities Act and such securities have been disposed of by such holder pursuant to such registration statement, (ii) such securities have been sold to the public pursuant to, or are eligible for sale to the

public without volume or manner of sale restrictions under, Rule 144(k) (or any similar provision then in force, but not Rule 144A) promulgated under the Securities Act, (iii) such securities shall have been otherwise transferred and new certificates for such securities not bearing a legend restricting further transfer shall have been delivered by us or its transfer agent and subsequent disposition of such securities shall not require registration or qualification under the Securities Act or any similar state law then in force or (iv) such securities shall have ceased to be outstanding. The Demand Registration Rights are exercisable up to four times at any time after the earlier of (i) May 2, 2000 and (ii) five months after the completion of any public offering of our capital stock in the United States. We will not be required to effect more than one demand registration in any twelve-month period. In certain instances, the Argentine government acting through Banco Nación has the right to postpone the filing of any registration statement requested to be filed pursuant to a Demand Registration Right. No Demand Registration Right has been exercised as of the date of this offering memorandum.

Certain Provisions Relating to Acquisitions of Shares

Certain Provisions of the Privatization Law and the Bylaws

Pursuant to the Privatization Law and our bylaws, each individual or legal entity that belongs to the same “economic group” cannot own more than 5% of our capital stock. Although the Privatization Law does not define the term “economic group,” we apply the meaning given to that term in the Central Bank Accounting Rules.

Furthermore, pursuant to the Privatization Law, no individual or legal entity may be entitled to hold more than 5% of our capital stock. In accordance with the terms of the Privatization Law, the Ministry of Economy and Public Finance may set forth other terms and conditions for the offering of shares.

Certain Provisions Relating to the Central Bank

The Privatization Law and the supplementary regulations applicable thereto require that significant acquisitions be approved in advance by the Central Bank. Accordingly, under the Central Bank Accounting Rules, significant acquisition means any purchase of stock which entitles the purchaser to 5% or more of our votes.

In addition, any acquisition, other than a significant acquisition, of 2% or more of the capital stock of a financial institution shall be reported by us to the Central Bank.

Notice of Certain Acquisitions

Pursuant to our bylaws, any person who, directly or indirectly, through or together with its affiliates and persons acting in concert with it, acquires Class D shares or securities convertible into Class D shares that would result in such person controlling more than 3% of Class D shares, shall be required to notify us within five days of such acquisition, in addition to complying with all the requirements imposed by any regulatory authority in Argentina and/or other jurisdictions where our Class D shares are listed and/or traded. Such notice shall include the name or names of the person or persons, if any, acting in concert with it, the date of the acquisition, the number of shares acquired, the price at which the acquisition was made and a statement as to whether it is the intention of the persons to acquire a greater equity interest in, or control of, the Bank. Each subsequent acquisition by such person or persons shall require a similar notice under the same terms.

Qualified Tied Majority

Any actions taken at any shareholders’ meeting of the Bank, either ordinary or extraordinary, general or special, may be taken by an absolute majority of shareholders present therein, except that:

- the affirmative vote of 75% of the shares entitled to vote both on first and second call (without regard to multiple voting rights) is required for the approval of certain actions by the Bank, namely (i) the delisting of our shares from the BCBA (or such entity as may replace it in the future) and/or the New York Stock Exchange; (ii) the transfer of our domicile outside Argentina; (iii) a fundamental change in our corporate purpose; and (iv) certain split-ups resulting in the transfer of 25% or more of our assets;
- the affirmative vote of 66% of the shares entitled to vote both on first and second call (without regard to multiple voting rights) is required to approve certain amendments to our bylaws, namely those which would (i) amend our bylaws to change the percentage of our capital stock ownership, or the percentage that determines what constitutes a control acquisition; (ii) amend the provisions of our bylaws requiring that tender offers required under our bylaws be all-cash offers for all outstanding shares and convertible securities at no less than a specific minimum price as provided for by our

bylaws; (iii) amend the provisions regarding the number, nomination, election and composition of the board of directors; (iv) allow the granting of certain guarantees in favor of shareholders; (v) approve the substantial reduction or total cessation of our housing loan operations; and (vi) amend the provisions on number, nomination, election and composition of the board of directors; and

- the approval of an absolute majority of the shares (without regard to multiple voting rights) entitled to vote is required for (i) mergers or split-ups in which we are not the surviving entity, and (ii) early dissolution or partial or total reassessment of capital.

Articles of Incorporation and Bylaws

Incorporation; Corporate Purpose

We are a *sociedad anónima* incorporated under the Argentine laws and registered in the Public Registry of Commerce as of October 23, 1997 under Number 12,296, Book 122, Volume A of Corporations. Under our bylaws, our duration is one hundred years as from the date of registration in the Public Registry of Commerce (until October 23, 2097). Our registered corporate office is located at Reconquista 151 (C1003ABC), City of Buenos Aires.

Pursuant to section 4 of our bylaws, our purpose is to carry on, either on our own account or through third parties, or in association with third parties, within Argentina or abroad, the following businesses: (i) banking activities contemplated in and permitted by the Financial Institutions Law and further supplementary and accessory laws, regulations and provisions governing the banking business for all commercial banks; and the servicing of the needs of housing mortgage loans; (ii) insuring the risks derived from the transactions performed or property financed by the Bank, even if such property has not been given as collateral, providing insurance to the beneficiaries of our transactions and insuring the risks derived from the transactions set forth in section 10 of Law No. 21,581, the National Housing Fund Law, and Law No. 24,626, the Mandatory Insurance System Law; (iii) performing all securities transactions contemplated in the applicable laws and regulations that govern such business, within the guidelines set forth by the CNV, acting as a stock company (*sociedad de bolsa*) in authorized stock markets or as a broker in any other authorized market; (iv) purchasing, selling, constructing, leasing and managing real estate and/or entering into brokerage and agency transactions and any other transaction as may be necessary to perform our banking activities; and (v) acting as trustee in accordance with the provisions of the Trust Law. According to our bylaws and section 17 of the Privatization Law, we must, for the term of ten years from July 22, 1997, conduct at least the following activities: (a) finance the construction and purchase of homes within the country, either *per se* or through third parties, ensuring a harmonic regional distribution of credit, so that credit is accessible to several sectors of the community; (b) maintain credit lines aimed at financing the construction of homes in small municipalities, allocating annually to these activities not less than 10% of all construction credits granted, being required to contemplate an equitable geographic distribution; and (c) preserve the creation of the special fund provided for in section 13 of Law No. 24,143 (the “Repayment of Credits and Existing Debts among Banco Hipotecario Nacional, the Central Bank and the Secretariat of Economy Law”), which provides that we shall create a special fund aimed at subsidizing the reimbursement services of borrowers affected by situations of economic emergency that cannot be resolved through the renegotiation of the loan. Such fund shall be composed by 2% of the amounts received as interest on housing loans.

We shall subject our operations to the provisions of the Central Bank Accounting Rules. Moreover, we shall also administrate minor accounts pursuant to the conditions established in section 33 of Law No. 21,963, the National Savings and Insurance Fund Law, applying the unattachability of savings account balances according to section 34 of the referred Law.

Relations between the Directors and the Bank; Conflicts of Interest

Section 14 of our bylaws provides that the board of directors shall determine the compensation of the members that perform executive, technical and administrative duties or special at levels consistent with the ones prevailing in the market. Interested directors shall abstain from voting on decisions affecting their compensation. Resolutions regarding compensation of directors shall be ratified by shareholders’ meeting

Section 6.8 of the regulations of the board of directors establishes that a director with an interest contrary to or competing with us shall inform us of such conflict before the matter is considered in order for the affected director to leave the meeting until discussions regarding such matter are ended. If the aforesaid obligation is not complied with, then a shareholders’ meeting must be called to decide: (i) the eventual adoption of punishment measures; (ii) removal or suspension of the interested director, or (iii) initiation of legal actions against the interested

director (section 10 of the board of directors' Regulations). In addition, pursuant to section 10 of the Regulation of the board of directors, the breach of this obligation shall be evaluated by the board of directors, which may apply penalties to the breaching director.

Shareholder Rights and Obligations

Participation in our Liquidation

Upon liquidation of the Bank, one or more liquidators may be appointed to wind up our assets and businesses. In such case, in the event of liquidation of our assets, the proceeds will be applied to satisfy the payment of our debts and liabilities, whereas any remaining amounts will be distributed among the shareholders *pro rata* to their shareholdings, subject to the preferential rights of any preferred shares, should there be at that time any issued and outstanding preferred shares.

Reduction of Capital

Capital reductions may be voluntary or mandatory. Voluntary reductions of capital shall be approved by an extraordinary shareholders' meeting, which shall take place only after notice thereof has been given in accordance with the applicable rules at that time and after the shareholders' notice is published and creditors are given an opportunity to obtain payment or collateralization of their claims. According to section 206 of the Argentine Companies Law, reductions of capital are mandatory when losses have exceeded reserves and 50% of the capital stock of a company. Our shares are subject to redemption in connection with a reduction in the capital stock that requires approval by majority vote of an extraordinary shareholders' meeting. Any shares so redeemed must be cancelled by the Bank.

Acquisition of Our Own Shares

According to section 221 of the Argentine Companies Law and CNV Rules, corporations may acquire their own shares, as long as they are admitted to be listed by an authorized market. Once such shares have been fully paid for, shares may be acquired with net profits and free or voluntary reserves resulting from the latest financial statements approved by the board of directors.

The decision of a company to acquire its own shares must be (i) adopted by the board of directors, prior to a report of the Audit Committee or control body, (ii) relayed to the CNV and other authorized markets, and (iii) published in the newsletters of such authorized markets or in a wide circulation newspaper. The board of directors' resolution must establish the purpose of the acquisition, the maximum amount to be invested, the maximum number of shares or the maximum percentage of capital that may be acquired and the maximum price to be paid for the shares. The board of directors must prove to the CNV that it has sufficient liquidity to purchase the shares and that the payment of shares does not affect the company's solvency. The total amount of shares acquired and already held by the company must not exceed 10% of the company's capital stock. The shares acquired by the company exceeding such limits must be disposed of within ninety days from the date of the acquisition causing the excess.

The shares acquired according to these provisions must be disposed of by the company within a year from the date of their acquisition, unless an ordinary shareholders' meeting authorizes an extension. At the moment of transferring the shares, the company shall honor shareholders' preemptive rights by offering the shares to the shareholders according to the terms established in section 221 of the Argentine Companies Law. The rights of the shares acquired by the company shall be suspended until the shares are sold to a third party and shall not be considered for the calculation of the quorum and majorities.

Once the term is over, and there has not been a shareholders' meeting resolution extending the term, the company's capital shall be decreased by law in an amount equal to the par value of the repurchased shares remaining in the portfolio, which shall be cancelled.

Finally, a company cannot acquire its own shares: (i) if the company knew of the existence of a public offering of its shares; (ii) before the end of the first day following the publication of the company's decision to acquire its own shares; or (iii) if the shares have not been fully paid.

On January 29, 2009, due to the expiration of the hedge agreement ("Total Return Swap") entered into on January 29, 2004 with Deutsche Bank AG, the latter transferred to the Bank, 71,100,000 Class D common shares of Ps.1 par value each issued by us. As from such time, the shares became our treasury stock under the terms and conditions provided in section 221 of the Argentine Companies Law. Accordingly, on January 12, 2010, our board of directors resolved: (i) to submit to the general ordinary shareholders' meeting the decision to deliver the treasury

Class D shares as payment to the StARs' holders, up to the amount of their credits and according to the share value then prevailing, and (ii) to analyze possible alternatives for the general ordinary shareholders' meeting to decide on the allocation of the remaining shares.

The general ordinary shareholders' meeting held on April 30, 2010 resolved to postpone for a year as from January 31, 2010 the term for the realization of our treasury stock. Furthermore, at the referred meeting, the shareholders resolved to delegate to the board of directors the decision to pay the StAR coupons arising from the debt restructuring with treasury stock, as appropriate, according to the contractual valuation calculations and their actual market value, with the shareholders having a preemptive right thereon under the same conditions.

On June 16, 2010, the board of directors resolved to make a preemptive offer for sale of part of the treasury stock held as of that time for 36 million class D shares, the balance of which was delivered as payment to the holders of the referred StAR coupons, due on August 3, 2010. On July 26, 2010, within the framework of such offer, approximately 26.9 million class D shares were disposed of and the proceeds thereof and the remaining shares were made available to the holders of the StAR coupons on August 3, 2010.

On April 13, 2011, our extraordinary general shareholders' meeting authorized our board of directors to proceed to sell shares on the market, reducing to 10 days the time limit for the exercise of preference rights by shareholders and suspending such right where sales of shares do not exceed 1% of our capital stock within any 12-month period. Given the lack of conditions and opportunities conducive to consummation of the sale, our general ordinary shareholders' meeting on March 27, 2012 resolved to postpone for a year the sale of the shares remaining from the Deutsche Bank transfer, according to the terms established in section 220, paragraph 3 of the Argentine Corporations Law.

On April 24, 2013, our general ordinary shareholders meeting resolved to allocate 35.1 million Class D common shares remaining to a compensation program pursuant to Section 67 of the Capital Markets Law. This approval and the delegation to the board of directors to make the compensation program effective was ratified by a general ordinary shareholders meeting held on April 24, 2014, and it was also resolved to expand the compensation program.

As of the date of this offering memorandum, the creation of the compensation program is pending approval from the CNV.

Shareholders' Meetings

Notice of Shareholders' Meetings

Pursuant to sections 21 and 22 of our bylaws, ordinary and extraordinary shareholders' meetings shall be called to consider the matters established in sections 234 and 235 of the Argentine Companies Law. Ordinary shareholders' meetings on first and second call may be called and held simultaneously. Shareholders' meetings, either ordinary or extraordinary, general or special, shall be called by means of notices published in the Official Gazette, in one of the major newspapers of Argentina and in the newsletters of the authorized markets of the country where our shares are listed for a five-day term. According to the Capital Markets Law, the minimum term for calling a meeting is 20 days and the maximum term is 45 days. The board of directors shall order the publications to be made abroad to comply with the laws and practices in effect in the jurisdictions of the authorized markets in which our shares are then listed. The board of directors may use the services of companies specializing in communications with shareholders and use other dissemination media to let them know its opinion on the subject matters to be dealt with at the relevant meeting. The cost of such services and dissemination shall be borne by the Bank.

Quorum Requirements

The quorum for ordinary shareholders' meetings on first call shall be a majority of the shareholders with the right to vote. The quorum for extraordinary shareholders' meetings on first call shall be 60% of the shareholders with the right to vote. The quorum for ordinary and extraordinary shareholders' meetings on second call shall be our shareholders present entitled to vote.

Resolutions in ordinary and extraordinary shareholders' meetings shall be adopted by the majority of the present votes, except for the cases where our bylaws establish special majorities or require the approval of Class A shares. See “—Voting Rights—Class A Shares” and “—Certain Provisions Relating to Acquisitions of Shares—Qualified tied Majority”.

At any ordinary or extraordinary shareholders' meetings, shareholders may be represented by proxies by granting a private instrument of proxy (the signature of which must be attested by a court officer, a notary public or a bank). In order to participate at shareholders' meeting, shareholders shall request to Caja de Valores S.A. a certificate of shares and deposit it with us three days prior to the shareholders' meeting or within such term as determined by us in accordance with the then applicable regulations in force.

Resolutions Affecting the Rights of a Class of Shares

Pursuant to section 24(v) of our bylaws and section 250 of the Argentine Companies Law, whenever a shareholders' meeting is required to adopt resolutions affecting the rights of a class of shares, the consent or ratification of such class shall be required, which consent or ratification shall be submitted to a special meeting of shareholders of such class.

Capital Increases; Issuance of Shares

Our bylaws provide that the capital stock may be increased up to five times its current amount by resolution of the Ordinary shareholders' meeting as provided by section 188 of the Argentine Companies Law. In addition, companies under the public offering regime in Argentina, such as the Bank, may increase their capital stock more than five times its current amount without amending their bylaws. The shareholders' meeting that approves a capital increase must set forth the terms of the shares to be issued, and may delegate to the board of directors the authority to determine the time of such issuance and the payment terms and conditions and any other delegation authorized by the Argentine Companies Law.

Notwithstanding any changes that may arise from the exercise of preemptive rights and accretion rights as provided in our bylaws, any issuance of common or preferred stock is to be made by classes maintaining the existing proportion among the different classes as of the date of commencement of the subscription period. Our bylaws also provide that any convertible securities issued by us can only be convertible into Class D shares and the issuance thereof must be authorized by a special meeting of Class D shareholders.

Restrictions on Control Acquisitions

Required Approvals and Tender Offers

Pursuant to our bylaws, each Control Acquisitions must be carried out in accordance with the procedure described in this subsection.

Pursuant to our bylaws, any acquisition of shares or convertible negotiable securities as a result of which the acquirer, directly or indirectly through or together with its affiliates (collectively, an "Acquirer"), would own or control Class D shares that, combined with such Acquirer's prior Class D shares, would represent 30% or more of our outstanding capital stock (jointly, "Control Acquisitions"), must be carried out in accordance with the provisions described below, except for acquisitions by an Acquirer owning or controlling more than 50% of our capital prior to such acquisition. Any transaction that would result in the Acquirer holding a controlling interest in the Bank, as defined under the Argentine Companies Law, also must be approved in advance by the holders of Class A shares.

Prior to consummating any Control Acquisition, an Acquirer must obtain the approval of the holders of Class A shares, and make a public tender offer ("PTO") for all outstanding shares and securities convertible into shares of the Bank. The Acquirer will be required to provide us with written notice of and certain specified information with respect to any such tender offer, as well as the terms and conditions of any agreement or proposed agreement which, if consummated, would result in a Control Acquisition (a "Proposed Agreement"), at least 15 business days prior to the commencement of the offer.

We will send each shareholder and holder of convertible securities a copy of such notice, at the Acquirer's expense. The Acquirer is required to publish a notice containing substantially the same information in a newspaper of general circulation in the City of Buenos Aires, New York City and any other city in which our securities are traded on an authorized market, as well as in the newsletters of those authorized markets. The notice must be published at least once a week beginning on the date notice is provided to the Bank, until the offer expires.

The board of directors shall call a special meeting of Class A shareholders on the tenth Business Day following the receipt of the Acquirer's notice for the purpose of considering whether consummation of the PTO will result in a benefit for us or for the general interest. If the special meeting of Class A shareholders is not held, or if Class A shareholders disapprove the PTO, neither the PTO nor the Proposed Agreement may be consummated.

The PTO must be carried out in accordance with the procedure specified in our bylaws and in accordance with any additional or stricter requirements of the jurisdictions, and the authorized markets in which the offer is made or in which our securities are traded.

According to our bylaws, the PTO must provide for the same price in cash for all shares tendered. Such price cannot be less than the highest of the following:

- i. the highest price paid by or on behalf of the Acquirer for Class D shares or convertible securities during the two years prior to the notice provided to the Bank, adjusted for any stock split, stock dividend, subdivision or reclassification affecting the Class;
- ii. the highest selling closing price for Class D shares on the BCBA during the 30-day period immediately preceding the notice provided to the Bank, adjusted for any stock split, stock dividend, subdivision or reclassification affecting the Class;
- iii. the price resulting from clause (ii) above, multiplied by a fraction, the numerator of which shall be the highest price paid by or on behalf of the Acquirer for Class D shares during the two years immediately preceding the date of the notice provided to us and the denominator of which shall be the closing price for Class D shares on the BCBA on the date immediately preceding the first day of such two-year period on which the Acquirer acquired any interest in or right to any Class D shares, adjusted for any stock split, stock dividend, subdivision or reclassification affecting the Class; and
- iv. the net earnings per Class D share during the four most recent full fiscal quarters immediately preceding the date of the notice provided to the Bank, multiplied by the higher of (a) the price/earnings ratio during such period for Class D shares (if any) and (b) our highest price/earnings ratio in the two-year period immediately preceding the date of the notice provided to the Bank, in each case determined in accordance with standard practices in the financial community.

Any such offer must remain open for a minimum of 90 days following the provision of notice to the shareholders or first publication of the offer, and shareholders shall have the right to withdraw tendered shares at any time until the closing of the PTO. Following the closing of such PTO, the Acquirer will be obliged to acquire all tendered shares or convertible securities; *provided* that if the number of shares tendered is less than the minimum, if any, upon which such tender offer was conditioned, the Acquirer may withdraw the tender offer. The Acquirer may consummate any Proposed Agreement within 30 days following the closing of the PTO; *provided* that if such PTO was conditioned on the acquisition of a minimum number of shares, the Proposed Agreement may be consummated only if such minimum was reached. If no Proposed Agreement existed, the Acquirer may acquire the number of shares indicated in the notice provided to us on the terms indicated in such notice to the extent such number of shares were not acquired in the PTO; *provided* that any condition relating to a minimum number of shares tendered has been met.

In addition, the Capital Markets Law establishes the rules and regulations applicable to voluntary and mandatory tender offers.

Restrictions on Transfers with Related Parties

In accordance with the Statute of the Bank, any merger by takeover, merger itself or any other combination that has substantially the same effect and that involves us and Acquirer who has previously made an Acquisition of Control, or by any other person or persons, whether said transaction could have substantially the same effects as a Control Acquisition (a 'Related Party Transaction') must be in accordance with the provisions described below.

The price per share to be received by each bidding shareholder in any Transaction with Related parties should be the same, and should not be less than the highest of the following:

1. The highest price paid by or on behalf of the party seeking to carry out the Transaction with Related Parties (an "Interested Shareholder") for (a) shares of Class to be transferred in Transaction with Related Parties within the two-year period immediately preceding the announcement of the Transaction with Related Parties, or (b) shares of the Class acquired in any Acquisition of Control, in each case adjusted for any stock split, stock dividend, subdivision to another reclassification affecting the Class;

2. the highest price of the closing sale of shares of the Class in the BYMA during the 30 days immediately preceding the announcement of the Transaction with Related Parties or the date of any Acquisition of Control by the Interested Shareholder, adjusted for any division equity, dividend, subdivision or reclassification affecting the Class;
3. the price resulting from clause (ii), multiplied by a fraction, its numerator of which will be the highest price paid by or on behalf of the Interested Shareholder for any share of the Class during the two years immediately preceding the announcement of the Transfer with Related Parties, and its denominator will be the closing sale price corresponding to the shares of the Class on the date immediately preceding the first day of the two-year period mentioned above in which the Interested Shareholder acquired any interest or right in shares of the Class, in each case adjusted for any stock split, stock dividend, subdivision or reclassification affecting the Class; and
4. The net income per share of the shares of the Class over the past four full fiscal quarters immediately preceding the announcement of the Transaction with Related Parties, multiplied by the higher of the following relationships (a) the price / income from that period for the shares of the Class (if any), and (b) our highest price / income relationship in the two year period prior to the announcement of the Transaction with Related Parties, in each case determined in accordance with normal practices in the financial community.

Any offer must remain open for a minimum period of 90 days after the mailing of notice to shareholders or the first publication of the offer, and shareholders will be entitled to withdraw the tendered shares at any time until the closure of the offer. After the closure of the public offering of the acquisition, the Acquirer shall be obliged to acquire all the shares or convertible securities offered, considering that if the number of offered shares were less than the minimum (if such provisions had minimum) to which of the above conditioned was the mentioned offer, the Acquirer may withdraw the public offer of acquisition. The Acquirer may limit themselves to any Proposed Agreement within 30 days after the closure of the offering, establishing that, if said offer was conditioned to the acquisition of a minimum number of shares, the Proposed Agreement may be limited only if it reached said minimum. In the absence of any Proposed Agreement, the Acquirer may purchase the number of shares indicated in the notice given to us under the conditions mentioned therein, to the extent that such number of shares not purchased in the tender offer; *provided* that it has fulfilled all conditions related to the minimum number of shares offered.

Acquisitions by the Argentine Government

The threshold levels at which an acquisition of shares by the Argentine government is deemed to be a Control Acquisition, and the sanctions applicable to Control Acquisitions carried out by the Argentine government in violation of the procedures described above, are different than those applicable to acquisitions of shares by other persons. Acquisitions of shares by the Argentine government which result in (i) the Argentine government owning or controlling an aggregate of 49% or more of our outstanding capital stock or (ii) acquisitions by the Argentine government of 8% or more of the outstanding Class D shares; *provided* that Class A shares represent at least 5% of our outstanding capital as of October 23, 1997, will require the Argentine government to make a tender offer for all the outstanding Class D shares. Acquisitions by the Argentine government which do not satisfy the requirements of (i) or (ii) above are subject to the threshold percentages described with respect to Control Acquisitions. See “—Restrictions on Control Acquisitions—Required Approvals and Tender Offers”. With respect to acquisitions by the Argentine government deemed to be Control Acquisitions, the required tender offer need only be conducted for all outstanding Class D shares.

Any Control Acquisitions carried out by the Argentine government other than in accordance with the procedure described above will result in the cancellation of the voting, dividend and other distribution rights of the shares so acquired, except for certain indirect acquisitions (e.g., through foreclosure or liquidation proceedings), and after which the Argentine government does not own or control 49% or more of the outstanding capital stock or more than 50% of the outstanding Class D shares, in which case only the voting rights of the Argentine government with respect to the shares so acquired will be withdrawn.

Dividends

The declaration, amount and payment of dividends on our capital stock are determined by majority vote of the shareholders and are based generally, but not necessarily, on the annual recommendation of the board of directors. The board of directors submits our financial statements for the preceding fiscal year, together with the reports thereon by the Board of the Directors and the Supervisory Committee, to the annual ordinary shareholders’

meeting for approval. Once they have approved the financial statements, the shareholders shall determine the allocation of our realized net profits for such year. We are required to allocate a percentage of net income (currently 20%) to the legal reserve. If the legal reserve is subsequently impaired, dividends cannot be paid until the legal reserve has been fully reestablished, which percentage shall not be available for distribution. Under our bylaws, after the allocation to the legal reserve has been made and after segregating an amount of the annual net income for the required payment of fees to the members of the board of directors and of the Supervisory Committee, an amount of the annual net income will be segregated to pay dividends on preferred stock, if any. The remainder of the annual net income may be distributed as dividends on common stock or retained as a voluntary reserve, contingency reserve or other account, or any combination thereof, all as determined by the shareholders' meeting. Following the implementation of the PPP and (i) for a period of 10 years, or (ii) until full payment of the shares' transfer price, whatever occurs first, up to 0.50% of our net income for each fiscal year shall be paid to the beneficiaries of the PPP, through a charge to income.

Under Argentine law, dividends may be lawfully declared and paid by us only out of the balance of its net income for the relevant fiscal year after complying with the requirements set forth above, plus retained earnings for prior fiscal years, if any, reflected in our annual audited financial statements approved at an ordinary shareholders' meeting.

Under CNV Rules and our bylaws, cash dividends must be paid to shareholders within 30 days of the shareholders' meeting approving the dividend. Payment of dividends in shares requires authorization from the CNV, which authorization must be requested within ten days after the shareholders' meeting approving the dividend. We must make payment available to shareholders within three months after the CNV's authorization. Payment of dividends in shares and cash also must be made available to shareholders within three months of such notice. In addition, the amount, if any, of dividends that holders of ADSs will receive in U.S. dollars will be subject to, among other things, any exchange control policies applicable in Argentina.

Finally, the Central Bank has imposed restrictions on the payment of dividends, substantially limiting the ability of financial institutions to distribute such dividends without its prior consent. For more information about the requirements applicable to dividend distributions see "Argentine Banking System and Regulation—Liquidity and solvency requirements—Requirements applicable to dividend distributions".

TAXATION

United States Federal Income Taxation

The following is a summary of certain United States federal income tax consequences of the purchase, ownership and disposition of Notes as of the date hereof. Except where noted, it deals only with Notes held as capital assets by United States Holders (as defined below) and does not represent a detailed description of the United States federal income tax consequences applicable to holders that are subject to special treatment under the United States federal income tax laws, including dealers in securities or currencies, financial institutions, regulated investment companies, real estate investment trusts, tax-exempt entities, insurance companies, persons holding Notes as a part of a hedging, integrated, conversion or constructive sale transaction or a straddle, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, persons liable for alternative minimum tax, partnerships or other pass-through entities or arrangements for United States federal income tax purposes, United States expatriates, or United States Holders of Notes whose “functional currency” is not the U.S. dollar. Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Tax Code”), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified, perhaps retroactively, so as to result in United States federal income tax consequences different from those discussed below. The discussion below assumes that all Notes issued under the Program will be classified for United States federal income tax purposes as our indebtedness, and you should note that in the event of an alternative characterization, the tax consequences would differ from those discussed below. Any special United States federal income tax considerations relevant to a particular issue of the Notes will be provided in the applicable pricing supplement. Persons considering the purchase, ownership or disposition of Notes should consult their own tax advisors concerning the United States federal income tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.

As used herein, a “United States Holder” of a Note means a beneficial owner that is for United States federal income tax purposes: (i) an individual citizen or resident of the United States, (ii) a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust if it (X) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (Y) has a valid election in effect under applicable United States Treasury Regulations to be treated as a United States person.

If an entity or arrangement treated as a partnership for United States federal income tax purposes holds our Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding our Notes is urged to consult its tax advisors.

This summary does not represent a detailed description of the United States federal income tax consequences applicable to a United States Holder in light of such holder’s particular circumstances and does not address the effects of any other federal tax consequences (such as the Medicare contribution tax or the gift and estate tax) or any state, local or non-United States tax laws. United States Holders considering the purchase of Notes should consult their own tax advisors concerning the particular United States federal income tax consequences to them of the ownership of the Notes, as well as the consequences arising under the laws of any other taxing jurisdiction.

Payments of Interest

Except as set forth below, stated interest on a Note will generally be taxable to a United States Holder as ordinary income at the time it is paid or accrued in accordance with the United States Holder’s method of accounting for tax purposes.

In addition to interest on the Notes (which includes any Argentine tax withheld from interest payments), a United States Holder will be required to include in income any Additional Amounts paid in respect of such Argentine tax withheld. A United States Holder may be entitled to deduct or credit such tax, subject to applicable limitations in the Tax Code, including that the election to deduct or credit foreign taxes applies to all of the United States Holder’s foreign taxes for a particular taxable year. Interest income (including Argentine taxes withheld therefrom and Additional Amounts) and original issue discount (as defined below) on a Note generally will constitute foreign source income and generally will be considered passive income for purposes of computing the

United States foreign tax credit. A United States Holder will generally be denied a foreign tax credit for foreign taxes imposed with respect to the Notes where the United States Holder does not meet a minimum holding period requirement during which it is not protected from risk of loss. The rules governing the foreign tax credit are complex. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Original Issue Discount

United States Holders of Original Issue Discount Notes (which, for purposes of this discussion, shall be deemed to be any Notes issued with original issue discount, as described below) will be subject to special tax accounting rules, as described in greater detail below. United States Holders of such Notes should be aware that they generally must include original issue discount (“OID”) in gross income as ordinary income in advance of the receipt of cash attributable to that income. However, United States Holders of such Notes generally will not be required to include separately in income cash payments received on the Notes, even if denominated as interest, to the extent such payments do not constitute qualified stated interest (as defined below). Notice will be given in the applicable pricing supplement when we determine that a particular Note will be an Original Issue Discount Note.

Additional rules applicable to Original Issue Discount Notes that are denominated in or determined by reference to a Specified Currency other than the U.S. dollar are described under “*Foreign Currency Notes*” below.

A Note with an “issue price” that is less than its stated redemption price at maturity (the sum of all payments to be made on the Note other than “qualified stated interest”) will be issued with OID in an amount equal to such difference unless such difference is *de minimis* (i.e., less than 0.25 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity). The “issue price” of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold (other than to an underwriter, broker, placement agent or wholesaler). The term “qualified stated interest” means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) and meets all of the following conditions: (i) it is payable at least once per year, (ii) it is payable over the entire term of the Note, and (iii) it is payable at a single fixed rate or, subject to certain conditions, based on one or more interest indices.

Notice will be given in the applicable pricing supplement when we determine that a particular Note will bear interest that is not qualified stated interest.

In the case of a Note issued with *de minimis* OID, which is discount that is not OID because it is less than 0.25 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity, the United States Holder generally must include such *de minimis* OID in income as capital gain at the time principal payments on the Notes are made in proportion to the amount paid.

Certain of the Notes may be redeemed prior to their Stated Maturity at our option and/or at the option of the holder. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. Persons considering the purchase of Original Issue Discount Notes with such features should carefully examine the applicable pricing supplement and should consult their own tax advisors with respect to such features since the tax consequences with respect to OID will depend, in part, on the particular terms and features of the Notes.

United States Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments using the “constant yield method” described in this paragraph. The amount of OID includible in income by the initial United States Holder of an Original Issue Discount Note is the sum of the “daily portions” of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such United States Holder held such Note (“accrued OID”). The daily portion is determined by allocating to each day in any “accrual period” a *pro rata* portion of the OID allocable to that accrual period. The “accrual period” for an Original Issue Discount Note may be of any length and may vary in length over the term of the Note; *provided* that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period other than the final accrual period is an amount equal to the excess, if any, of (i) the product of the Note’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (ii) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final

accrual period. Special rules will apply for calculating OID for an initial short accrual period. The “adjusted issue price” of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortization of any acquisition or bond premium, as described below) and reduced by any payments made on such Note (other than a payment of qualified stated interest) on or before the first day of the accrual period. Under these rules, a United States Holder will have to include in income increasingly greater amounts of OID in successive accrual periods. We are required to provide information returns stating the amount of OID accrued on Notes held of record by persons other than certain exempt holders such as corporations.

Floating Rate Notes are subject to special OID rules. In the case of an Original Issue Discount Note that is a Floating Rate Note, both the “yield to maturity” and “qualified stated interest” will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index, or if the principal amount of the Notes is indexed in any manner. Persons considering the purchase of Floating Rate Notes should carefully examine the applicable pricing supplement and should consult their own tax advisors regarding the United States federal income tax consequences of the holding and disposition of such Notes.

United States Holders may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. Such election cannot be revoked without the consent of the Internal Revenue Service (the “IRS”). United States Holders should consult with their own tax advisors about this election.

Argentine withholding taxes may be imposed at times that differ from the times at which you are required to include interest or OID in income for United States federal income tax purposes and this disparity may affect the amount of foreign tax credit available.

Short-Term Notes

In the case of Notes having a term of one year or less (“Short-Term Notes”), all payments (including all stated interest) will be included in the stated redemption price at maturity and, thus, United States Holders will generally be taxed on the discount in lieu of stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a Short-Term Note, unless the United States Holder elects to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method United States Holders of a Short-Term Note are not required to include accrued discount in their income currently unless they elect to do so (but may be required to include any stated interest in income as it is received). United States Holders that report income for United States federal income tax purposes on the accrual method and certain other United States Holders are required to accrue discount on such Short-Term Notes (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a United States Holder that is not required, and does not elect, to include discount in income currently, any gain realized on the sale, exchange or retirement of the Short-Term Note will generally be ordinary income to the extent of the discount accrued through the date of sale, exchange or retirement. In addition, a United States Holder that does not elect to include currently accrued discount in income may be required to defer deductions for a portion of the United States Holder’s interest expense with respect to any indebtedness attributable to the Short-Term Notes.

Market Discount

If a United States Holder purchases a Note for an amount that is less than its stated redemption price at maturity or, in the case of an Original Issue Discount Note, its adjusted issue price, the amount of the difference will be treated as “market discount” for United States federal income tax purposes, unless such difference is less than a specified *de minimis* amount. Under the market discount rules, a United States Holder will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Note as ordinary income to the extent of the market discount which has not previously been included in income and is treated as having accrued on such Note at the time of such payment or disposition. In addition, the United States Holder may be required to defer, until the maturity of the Note or its earlier disposition in a taxable transaction, the deduction of

all or a portion of the interest expense on any indebtedness attributable to such Note. A United States Holder may elect, on a Note-by-Note basis, to deduct the deferred interest expense in a tax year prior to the year of disposition. United States Holders should consult their tax advisors before making this election.

Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Note, unless the United States Holder elects to accrue on a constant interest method. A United States Holder of a Note may elect to include market discount in income currently as it accrues (on either a ratable or constant interest method), in which case the rule described above regarding deferral of interest deductions will not apply. Such election may not be revoked without consent of the IRS.

Acquisition Premium; Amortizable Bond Premium

A United States Holder that purchases an Original Issue Discount Note for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest will be considered to have purchased such Note at an “acquisition premium”. Under the acquisition premium rules, the amount of OID which such United States Holder must include in its gross income with respect to such Note for any taxable year will be reduced by the portion of such acquisition premium properly allocable to such year.

A United States Holder that purchases a Note (including an Original Issue Discount Note) for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest will be considered to have purchased the Note at a “premium” and, if it is an Original Issue Discount Note, the United States Holder will not be required to include any OID in income. A United States Holder generally may elect to amortize the premium over the remaining term of the Note on a constant yield method as an offset to interest when includible in income under the United States Holder’s regular accounting method. Special rules limit the amortization of premium in the case of convertible debt instruments. Bond premium on a Note held by a United States Holder that does not make such an election will decrease the gain or increase the loss otherwise recognized on disposition of the Note.

Sale, Exchange, Redemption, Retirement and Other Taxable Disposition of Notes

A United States Holder’s adjusted tax basis in a Note will, in general, be the United States Holder’s cost therefor, increased by OID, market discount or any discount with respect to a Short-Term Note previously included in income by the United States Holder and reduced by any amortized premium and any cash payments on the Note other than qualified stated interest. Upon the sale, exchange, redemption, retirement or other taxable disposition of a Note, a United States Holder will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, redemption, retirement or other taxable disposition (less an amount equal to any accrued and unpaid qualified stated interest which will be taxable as interest income for United States federal income tax purposes to the extent not previously included in income) and the adjusted tax basis of the Note. Except with respect to certain Short-Term Notes and to market discount, as described above, or with respect to gain or loss attributable to changes in exchange rates with respect to certain Foreign Currency Notes, as described below, or with respect to contingent payment debt instruments, which this summary generally does not discuss, such gain or loss will be capital gain or loss. Gain or loss realized on the sale, exchange, redemption, retirement or other taxable disposition of a Note will generally be treated as United States source gain or loss. Accordingly, if any gain from the sale or other disposition of a Note is subject to Argentine or other foreign income tax, a United States Holder may not be able to credit such tax against its United States federal income tax liability, unless such tax can be credited (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. Alternatively, a United States Holder may deduct any foreign income taxes, provided that the United States Holder does not credit any foreign income taxes paid or accrued in the same taxable year. Capital gains of individuals derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Foreign Currency Notes

The following is a summary of the principal United States federal income tax consequences to a United States Holder of the ownership of a Note that is denominated in or determined by reference to a Specified Currency other than the U.S. dollar (a “Foreign Currency Note”).

Interest Payments

United States Holders who receive interest payments made in a currency other than the U.S. dollar and who use the cash method of accounting are required to include in income the U.S. dollar value of the amount of interest received, determined by translating the foreign currency received at the spot rate for such currency on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. No exchange gain or loss is recognized with respect to the receipt of such payment.

United States Holders who must accrue interest on an accrual basis may determine the amount of income recognized with respect to such interest payment in accordance with either of two methods. Under the first method, the United States Holder will be required to include in income for each taxable year the U.S. dollar value of the interest that has accrued during such year, determined by translating such interest at the average rate of exchange for the period or periods during which such interest accrued. Under the second method, an accrual basis holder may elect to translate interest income at the spot rate on the last day of the accrual period (or last day of the taxable year in the case of an accrual period that straddles the holder's taxable year) or on the date the interest payment is received if such date is within five business days of the end of the accrual period. This election must be uniformly applied to all debt instruments each year and cannot be revoked without the consent of the IRS. Upon receipt of an interest payment on such Note (including, upon the sale of such Note, the receipt of proceeds which include amounts attributable to accrued interest previously included in income), such United States Holder will recognize ordinary income or loss in an amount equal to the difference between the U.S. dollar value of such payment (determined by translating any foreign currency received at the spot rate for such foreign currency on the date received) and the U.S. dollar value of the interest income that such United States Holder has previously included in income with respect to such payment.

Original Issue Discount

OID on a Note that is also a Foreign Currency Note will be determined for any accrual period in the applicable foreign currency and then translated into U.S. dollars in the same manner as interest income accrued by a holder on the accrual basis, as described above. A United States Holder will recognize exchange gain or loss when OID is paid (including, upon the sale of such Note, the receipt of proceeds attributable to OID previously included in income), to the extent of the difference between the U.S. dollar value of such payment (determined by translating the foreign currency received at the spot rate for such foreign currency on the date such payment is received) and the U.S. dollar value of the accrued OID (determined in the same manner as for accrued interest). For these purposes, all receipts on a Note will be viewed first, as the receipt of any stated interest payments called for under the terms of the Note; second, as receipts of previously accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first; and third, as the receipt of principal.

Market Discount

The amount of market discount on Foreign Currency Notes includible in income will generally be determined by translating the market discount determined in the foreign currency into U.S. dollars at the spot rate on the date the Foreign Currency Note is retired or otherwise disposed of. If the United States Holder has elected to accrue market discount currently, then the amount which accrues is determined in the foreign currency and then translated into U.S. dollars on the basis of the average exchange rate in effect during such accrual period. A United States Holder will recognize exchange gain or loss with respect to market discount which is accrued currently using the approach applicable to the accrual of interest income as described above.

Amortizable Bond Premium

Bond premium on a Foreign Currency Note will be computed in the applicable foreign currency. With respect to a United States Holder that elects to amortize the premium, the amortizable bond premium will reduce interest income in the applicable foreign currency. At the time bond premium is amortized, exchange gain or loss (which is generally ordinary income or loss) will be realized based on the difference between spot rates at such time and at the time of acquisition of the Foreign Currency Note. A United States Holder that does not elect to amortize bond premium will translate the bond premium, computed in the applicable foreign currency, into U.S. dollars at the spot rate on the maturity date and such bond premium will constitute a capital loss which may be offset or eliminated by exchange gain.

Sale, Exchange, Redemption, Retirement and Other Taxable Disposition of Foreign Currency Notes

Upon the sale, exchange, redemption, retirement or other taxable disposition of a Foreign Currency Note, a United States Holder will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, redemption, retirement or other taxable disposition (less an amount equal to any accrued and unpaid qualified stated interest, which will be taxed as interest for United States federal income tax purposes to the extent not previously included in income) and the United States Holder's adjusted tax basis in the Foreign Currency Note. A United States Holder's initial tax basis in a Foreign Currency Note generally will be the U.S. dollar cost of such Foreign Currency Note. If a United States Holder purchased a Foreign Currency Note with foreign currency, the United States Holder's cost generally will be the U.S. dollar value of the foreign currency amount paid for such Foreign Currency Note determined at the time of such purchase. If a Foreign Currency Note is sold, exchanged, redeemed, retired, or otherwise disposed of for an amount denominated in foreign currency, then a United States Holder's amount realized generally will be based on the spot rate of the foreign currency on the date of sale, exchange, redemption, retirement, or other disposition. If a United States Holder is a cash method taxpayer and the Foreign Currency Notes are traded on an established securities market, foreign currency paid or received is translated into U.S. dollars at the spot rate on the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment with respect to the purchase and sale of Foreign Currency Notes traded on an established securities market; *provided* that the election is applied consistently.

Except as described above with respect to certain Short-Term Notes, or with respect to market discount, and subject to the foreign currency rules discussed below, gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, redemption, retirement or other taxable disposition, the Foreign Currency Note has been held for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realized by a United States Holder on the sale, exchange, redemption, retirement, or other taxable disposition of a Foreign Currency Note would generally be treated as United States source gain or loss.

A portion of a United States Holder's gain or loss with respect to the principal amount of a Foreign Currency Note may be treated as exchange gain or loss. Exchange gain or loss will be treated as ordinary income or loss and generally will be United States source gain or loss. For these purposes, the principal amount of the Foreign Currency Note is a United States Holder's purchase price for the Foreign Currency Note calculated in the foreign currency on the date of purchase, and the amount of exchange gain or loss recognized is equal to the difference between (i) the U.S. dollar value of the principal amount determined on the date of the sale, exchange, redemption, retirement or other taxable disposition of the Foreign Currency Note and (ii) the U.S. dollar value of the principal amount determined on the date the United States Holder purchased the Foreign Currency Note (or, in each case, on the settlement date of such disposition or purchase, if the Foreign Currency Note is traded on an established securities market and the United States Holder is a cash basis or electing accrual basis taxpayer, as described above). The amount of exchange gain or loss will be limited to the amount of overall gain or loss realized on the disposition of the Foreign Currency Note.

Exchange Gain or Loss with Respect to Foreign Currency

A United States Holder's tax basis in the foreign currency received as interest on a Foreign Currency Note or on the sale, exchange, redemption, retirement or other taxable disposition of a Foreign Currency Note will be the U.S. dollar value thereof at the spot rate in effect on the date the foreign currency is received.

Any gain or loss recognized by a United States Holder on a sale, exchange or other taxable disposition of the foreign currency will be ordinary income or loss and generally will be United States source gain or loss.

Disclosure Requirements

Under United States Treasury Regulations, certain transactions may be subject to reporting requirements including, in certain circumstances, a sale, exchange, redemption, retirement or other taxable disposition of a Foreign Currency Note or foreign currency received in respect of a Foreign Currency Note to the extent that such sale, exchange, redemption, retirement or other taxable disposition results in a tax loss in excess of a threshold amount. Persons considering the purchase of Foreign Currency Notes should consult with their own tax advisors to determine the tax return disclosure obligations, if any, with respect to an investment in a Foreign Currency Note, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

Dual Currency Notes

If so specified in an applicable pricing supplement relating to a Foreign Currency Note, we may have the option to make all payments of principal and interest scheduled after the exercise of such option in a currency (the “Optional Payment Currency”) other than the Specified Currency. Applicable United States Treasury Regulations generally (i) apply the principles contained in regulations governing contingent debt instruments to Dual Currency Notes in the “predominant currency” of the Dual Currency Notes and (ii) apply the rules discussed above with respect to Foreign Currency Notes with OID for the translation of interest and principal into U.S. dollars. Persons considering the purchase of Dual Currency Notes should carefully examine the applicable pricing supplement and should consult their own tax advisors regarding the United States federal income tax consequences of the holding and disposition of such Notes.

A United States Holder of a Dual Currency Note with respect to which our option has been exercised may be considered to have exchanged a note denominated in the Specified Currency for a note denominated in the Optional Payment Currency. If the exercise of the option by us is not treated as a deemed exchange, a United States Holder of a Dual Currency Note will not recognize gain or loss and the United States Holder’s basis in the note will be unchanged. If the exercise of the option is treated as a taxable exchange, a United States Holder will generally recognize gain or loss, if any, equal to the difference between the issue price of the note denominated in the Optional Payment Currency and the holder’s basis in the note denominated in the Specified Currency (although in certain circumstances, such exchange may qualify as a tax-free recapitalization).

Indexed Notes and Any Notes Issued with Contingent Payments

The tax treatment of a United States Holder of an Indexed Note or any other Note providing for contingent payments will depend on factors including the specific index or indices used to determine indexed payments on the Note and the amount and timing of any contingent payments of principal and interest. This summary does not discuss the tax treatment of contingent payment debt instruments. Persons considering the purchase of Indexed Notes, or any Notes providing for contingent payments that do not constitute qualified stated interest, should carefully examine the applicable pricing supplement and should consult their own tax advisors regarding the United States federal income tax consequences of the holding and disposition of such Notes.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to certain payments of principal, interest, OID and premium paid on Notes and to the proceeds of sale of a Note made to United States Holders other than certain exempt recipients (such as corporations). A backup withholding tax may apply to such payments if the United States Holder fails to provide a taxpayer identification number or certification of foreign or other exempt status or fails to report in full dividend and interest income.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against such United States Holder’s United States federal income tax liability provided the required information is timely furnished to the IRS.

In addition, certain United States Holders are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions), by attaching a complete IRS Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold an interest in the Notes. You are urged to consult your own tax advisors regarding information reporting requirements relating to your ownership of the Notes.

Additional Withholding Requirements

In March 2010, the Hiring Incentives to Restore Employment Act enacted certain provisions of the Tax Code commonly referred to as “FATCA”. Under the FATCA rules, a “foreign financial institution” (as specifically defined under FATCA) that enters into an agreement with the U.S. Treasury Department may be required to withhold 30% from certain “foreign pass-through payments” made to holders that fail to comply with certain certification and/or information reporting requirements. The term “foreign pass-through payment” has not yet been defined by the applicable United States Treasury Regulations but is intended to capture payments that are non-U.S. source but are attributable to a U.S.-source payment. Debt obligations issued before the date which is six months after the publication of final regulations defining the term foreign pass-through payment would be grandfathered and therefore not subject to the FATCA rules for foreign pass-through payment withholding. In addition, United States Treasury Regulations and other official guidance provide that a foreign financial institution would not be required to

withhold on foreign pass-through payments until the later of January 1, 2019, or the date of publication of final regulations defining the term foreign pass-through payment. Prospective investors should consult their tax advisors regarding the application of the FATCA rules to an investment in the Notes.

Taxation in Argentina

The following summary of the main tax consequences in Argentina derived from acquisition, title to and disposition of securities issued by us is based on the tax laws of Argentina and regulations thereunder as in effect on the date of this offering memorandum and is subject to any changes that may come into effect after such date under the Argentine laws and regulations as may become effective subsequently to such date.

Even though this summary is considered to constitute an appropriate interpretation of the effective laws as of the date of this offering memorandum, no assurance may be given that the courts or tax authorities in charge of application of such laws will agree to this interpretation. Furthermore, it should be noted that there have been many changes in Argentine tax laws in the past and that such laws may be subject to restatements, revocation of exemptions, reestablishment of taxes and other changes which may reduce or eliminate the return on the investment.

Income Tax

Tax on Interest Payments

Except as described below, interest payments on the Notes (including original issue discount, if any) will be exempt from Argentine income tax; *provided* that the Notes are issued in accordance with the Negotiable Obligations Law No. 23,576 and qualify for tax exempt treatment under Article 36 of such law. Under Article 36, interest on the Notes shall be exempt if the following conditions (the “Article 36 Conditions”) are satisfied:

- (a) the Notes must be placed through a public offering authorized by the CNV;
- (b) the proceeds of the placement must be used by the issuer either for (i) working capital to be used in Argentina, (ii) investments in tangible assets located in Argentina, (iii) refinancing of debt, (iv) capital contributions to controlled or affiliated corporations of the issuer company; *provided* that such corporations use the proceeds of such contributions for the purposes set forth in (i), (ii) or (iii) above, as established under the resolution ordering the issue and that it has been informed to the investors publicly through this offering memorandum; and
- (c) the issuer must provide evidence to the CNV at the time and in the manner as prescribed by regulations that the proceeds of the issue have been used for the purposes described in section (b) above.

If the issuer fails to comply with the Article 36 Conditions, Article 38 of the Negotiable Obligations Law provides that the benefits resulting from tax treatment shall be forfeited and the issuer shall become liable for payment of the taxes as may have been applicable to the investor, calculated at the highest rate established by Article 90 of the Argentine Income Tax Law (35%). In this case, holders of Notes shall receive the amount of interest as established under the relevant Title as if no taxes had been payable. We intend to comply with the Article 36 Conditions. AFIP regulated through General Resolution No. 1,516/2003, as amended by General Resolution No. 1,578/2003, the relevant mechanism for payment of income tax by the issuer in the event any of the requirements set forth by Article 36 of the Negotiable Obligations Law is considered not to have been fulfilled.

Some exceptions established by Articles 21 of the Argentine Income Tax Law and Article 106 of Tax Procedure Law are not applicable to non-resident beneficiaries for interest paid in connection with holding of notes, and the above-mentioned exemption treatment is applicable, regardless of whether this benefit increases the amount subject to tax in another country or not.

According to Decree No. 1,076/1992-July 2, 1992 - as amended by Decree No. 1,157/1992 of July 10, 1992, ratified by Argentine Law No. 24,307 of December 30, 1993 (“Decree No. 1,076”), the exemption described above with respect to certain Argentine taxpayers was eliminated. As a result of Decree No. 1,076, interest paid to holders subject to the tax adjustment for inflation rules pursuant to Title VI of the Argentine Income Tax Law (in general, entities organized or incorporated under Argentine law, Argentine branches of foreign entities, sole proprietorships and individuals carrying on certain commercial activities in Argentina) are subject to income tax in Argentina at a rate of 35%.

Therefore, the exemption is applicable only to: (i) resident and non-resident individuals (including undivided estates) and (ii) foreign legal entities and other foreign entities.

Taxes on Capital Gains

If the Article 36 Conditions under the Negotiable Obligations Law are fully complied with, resident and non-resident individuals (including undivided estates) and foreign legal entities, except for their permanent establishments in Argentina, are not subject to income tax derived from the sale, exchange or other disposition of the Notes.

Decree No. 1,076/1992 has established that taxpayers subject to tax adjustment for inflation rules pursuant to Title VI of the Argentine Income Tax Law of Argentina (as described above, Argentine entities in general), are subject to the payment of income tax derived from the sale or other disposition of the Notes.

Presumed Minimum Income Tax

The Presumed Minimum Income Tax (the "PMIT") is levied upon potential income derived from the ownership of certain income-accruing corporate assets, including the Notes. The taxable persons are as follows: business companies, foundations, sole proprietorships, trusts (except for financial trusts established in accordance with the provisions of the Argentine Civil and Commercial Code), certain mutual funds established in Argentina and permanent commercial establishments owned by foreign entities, among other taxpayers.

As concerns Notes listed in an authorized market, the taxable value shall be determined on the basis of the last listed value as of the fiscal year closing date.

The tax rate is 1% (0.2% in the case of local financial and insurance entities). Assets subject to tax in Argentina whose aggregate value, determined in accordance with the effective regulations, is equal to or lower than Ps.200,000 as of the relevant fiscal year end date, shall be exempted from application of the Presumed Minimum Income Tax.

Income tax assessed for a fiscal year in particular is considered as a payment on account of PMIT to be paid in the same fiscal year.

In the event that, after the deduction described in the paragraph above, there is an excess amount of Argentine income tax, such excess amount shall not generate any credit for the taxpayer and it may not be reimbursed or offset in any case whatsoever. If the income tax which may be deducted on account of PMIT is insufficient so that such PMIT must be paid in a certain fiscal year, it will be possible to acknowledge PMIT as a credit toward income tax owed in the immediately following ten fiscal years.

The recent Law 27,260, enacted on July 22, 2016, repealed the PMIT from the fiscal year 2019 onwards.

Value Added Tax

Any financial transactions and operations related to the issuance, subscription, placement, purchase, transfer, payment of principal and/or interest or redemption of the Notes, and guarantees thereof, will be exempted from Value Added Tax, always provided that such Notes have been placed through a public offering and to the extent that the Article 36 Conditions have been fulfilled.

It should be noted that Article 38 of the Negotiable Obligations Law provides that, if the issuer does not comply with the Article 36 Conditions, the issuer shall be liable for payment of any and all taxes resulting therefrom. In any such case, the applicable tax rate shall be 21%, except for certain special cases as prescribed by the tax regulations.

Personal Assets Tax

The Personal Assets Tax ("PAT") levies certain assets located in the country (including the Notes) and abroad existing as of December 31 of each year pertaining to individuals located in Argentina and undivided estates located therein. In connection with these persons, an exemption applies to the group of assets subject to tax (excluding shares and equity interests of any type of company regulated by the Argentine Corporations Law) or which value in the aggregate, determined pursuant to the PAT rules, does not exceed the minimum not subject to tax defined for each fiscal period which is detailed below. In those cases where the value of the assets exceeds such amount, this tax shall be applicable on the excess.

Minimum not subject to tax	Period	Applicable Tax Rate
Over Ps.950,000	2017	0.50%
Over Ps.1,050,000.....	2018 and subsequent years	0.25%

In turn, foreign individuals domiciled and undivided estates located abroad are liable to this tax only in connection with assets located in Argentina (including the Notes). The tax rate applicable to these taxpayers is 0.50% in relation to fiscal year 2017 and 0.25% in relation to fiscal years 2018 and subsequent years. The PAT is not required to be paid if the amount of such tax is equal to or less than Ps.255.75.

Although securities directly owned by individuals domiciled abroad and estates located outside Argentina would be technically subject to the PAT, the PAT Law does not establish any method or procedure for collection of such tax.

PAT Law presumes, without admitting any evidence to the contrary, that Notes issued under the Negotiable Obligations Law are owned by individuals or undivided estates of Argentina and that they are thus subject to the PAT, in those cases where they are held by companies, any other kind of legal entities, companies, permanent establishments, estates or businesses (i) domiciled or located or situated abroad in any countries which do not apply any private securities registration regime and (ii) that, by virtue of their legal nature or bylaws (a) their main activity consists making in investments outside their country or incorporation and/or (b) are not authorized to transact certain activities in their own country or perform certain investments permitted pursuant to the laws of such country.

In these cases, the law establishes an obligation on the Argentine private issuer (the “Substitute Obligor”) to pay the PAT at the rate provided for individual foreign entities, increasing it by 100%. Decree No. 127, issued on February 9, 1996, and General Resolution (AFIP) No. 2,151/06 establish that the Substitute Obligor and, therefore, the party obliged to effect payment of the tax, shall be the issuer entity of such Notes. The PAT further authorizes the Substitute Obligor to recollect the amount paid, without limitation, through a withholding or foreclosure on the assets giving rise to such payment.

The above-mentioned legal presumption does not apply to the following foreign legal entities being direct owners of such assets: (i) insurance companies; (ii) open-end investment funds; (iii) pension funds; and (iv) banks or financial entities whose head offices are incorporated in a country whose Central Bank or equivalent authority has adopted the international standards of supervision established by the Basel Committee.

Notwithstanding, Decree No. 812/1996, dated July 22, 1996, establishes that the legal presumption discussed above shall not apply to shares and debt-related corporate securities whose public offering has been authorized by the CNV and which are tradable on the stock exchanges located in Argentina or abroad. In order to ensure that this legal presumption will not apply and, correspondingly, that the private Argentine issuer will not be liable as a substitute obligor in respect of the Notes, a duly certified copy must be kept in our records of the CNV resolution authorizing the public offering of the shares or debt-related corporate securities and evidence verifying that such certificate or authorization was effective as of December 31 of the year in which the tax liability occurred, as required by Resolution No. 2,151 of the AFIP dated October 31, 2006. We propose to comply with these requirements.

Tax on Credits and Debits on Bank Accounts

Law No. 25,413 (called “Competitiveness Law”), as amended and regulated by Law No. 25,453, established a tax levied on debits and credits of any nature on checking accounts maintained at financial institutions located in Argentina, except for those specifically exempted pursuant to legal provisions and regulations thereof. Debits and credits on checking accounts are subject to a general tax rate, i.e. 0.6%, although in certain cases a reduced rate of 0.075% may apply.

Certain transfers of money or cash movements through other mechanisms may also trigger application of this tax, subject to tax rates that may be up to 1.2% of amounts transferred in some cases.

In general, the financial institutions involved act as tax collection and tax calculation agents.

Decree No. 534/2004 established that, as from May 1, 2004, 34% of the amounts paid on account of this tax for taxable events covered by Article 1 a) of the above-mentioned Law (only credits) at the 0.6% general tax

rate, and 17% of the tax paid on transactions levied at the 1.2% tax rate under paragraphs b) and c) of such Law, will be considered as a payment on account of income tax, taxes on presumed minimum income or the special contribution on cooperatives capital by the bank account holders.

Recently, Law No. 27,264 and Decree No. 1,101 of October 17, 2016, have established that the tax on credits and debits in bank and other operating accounts, established by Article 1 of the Competitiveness Law No. 25,413 and its amendments may be computed at 100% as a payment on account of the income tax by companies that are considered “micro” and “small” and 50% by the manufacturing industries considered “Medians - part 1-” in the terms of Article 1 of Law No. 25,300 and its complementary rules. For purposes of using this benefit, the provisions set forth AFIP Resolution 3946/2016 must be completed.

Turnover Tax

Turnover tax is a local tax levied on the customary development of any business for profit within a provincial jurisdiction or the City of Buenos Aires. The tax base is the gross amount invoiced as a result of the business activities transacted in the jurisdiction.

Revenues derived from any transaction related to the Notes issued in accordance with the Negotiable Obligations Law shall be exempted from application of turnover tax in the jurisdictions of the City of Buenos Aires and the Province of Buenos Aires. Pursuant to the provisions of the Tax Code applicable in both jurisdictions, in order to avail of the exemption, the Notes must be issued in accordance with the provisions set forth by Law No. 23,576 and Law No. 23,962, and the above-mentioned tax exemption shall apply to the extent such transactions are exempted from income tax (that is, to the extent the Article 36 Conditions are met).

Stamp Tax

The stamp tax is a local tax that is generally levied on the consummation of onerous transactions executed within a certain provincial jurisdiction or outside a certain provincial jurisdiction but with effects in such jurisdiction. Notwithstanding, for the City of Buenos Aires, any actions, contracts, transactions, including money delivery or receipt transactions, related to the issuance, subscription, placement and transfer of Notes, issued pursuant to the Negotiable Instruments Law regime are exempted from application of this tax. This exemption shall include capital increases made for the issuance of shares to be delivered, conversion of notes and creation of any real or personal guarantees in favor of investors or third parties guaranteeing the issuance, either prior to, simultaneous with or subsequently to such issuance.

Notwithstanding, any instruments, actions and transactions related to the issuance of securities representing debt of their issuers and any other securities for public offering under the Capital Markets Law by companies authorized by CNV for public offering purposes are also exempted from this tax in the City of Buenos Aires. This exemption applies to guarantees related to issues as well. However, this exemption is forfeited if, within a 90 calendar days’ term, the relevant authorization is not requested for the public offering of such securities before the CNV and/or if placement of the Notes is not made within 180 calendar days counted as from granting of such authorization.

The actions and/or instruments related to the trading of shares and other securities duly authorized for public offering by the CNV are exempted from application of stamp tax in the City of Buenos Aires. This exemption is also ineffective if the circumstances mentioned in the last sentence of the previous paragraph occur. In turn, in the Province of Buenos Aires, any actions, contracts, transactions, including money delivery or receipt transactions, related to the issuance, subscription, placement and transfer of Notes, issued pursuant to the Negotiable Instruments Law regime are exempted from application of this tax. This exemption shall include capital increases made for the issuance of shares to be delivered, conversion of notes and creation of any real or personal guarantees in favor of investors or third parties guaranteeing the issuance, either prior to, simultaneous with or subsequently to such issuance.

In the Province of Buenos Aires, any instruments, actions and transactions related to the issuance of securities representing debt of their issuers and any other securities for public offering under the Capital Markets Law by companies duly authorized by CNV for public offering purposes are also exempted from this tax. This exemption applies to creation of any guarantees, either real or personal, in favor of investors or third parties guaranteeing the issuance, either prior to, simultaneous with or subsequently to such issuance. However, this exemption is forfeited if, within a 90 calendar days’ term, the relevant authorization is not requested for the public

offering of such securities before the CNV and/or if placement of the Notes is not made within 180 calendar days counted as from granting of such authorization.

Moreover, the actions related to trading of securities duly authorized for public offering by the CNV are exempted from application of stamp tax in the Province of Buenos Aires. This exemption is also ineffective if the circumstances mentioned in the last sentence of the previous paragraph occur.

Considering the autonomous authority vested in each provincial jurisdiction in connection with tax matters, any potential effects derived from these transactions must be analyzed, in addition to the tax treatment established by the other provincial jurisdictions.

Transfer Taxes

There are no taxes levied on the sales and/or transfers of Notes. Argentina imposes neither an estate nor gift tax on a decedent, donor, legatee or donee. Notwithstanding the foregoing, at provincial level, the Province of Buenos Aires passed Law No. 14,044, approved on September 23, 2009 and published in the Official Gazette on October 16, 2009, whereby it imposed a Tax on Free Transmission of Assets, effective as from January 1, 2010. Subsequently, Law No. 14,044 was amended pursuant to Law No. 14,200 approved on December 2, 2010 and published in the Official Gazette on December 24, 2010. Law No. 14,200 further pardoned, by operation of law, any tax liability derived from this Tax accrued as of December 31, 2010.

The tax on free transmission of assets is applicable to any enrichment resulting from transmissions made for no consideration, including: inheritances, legacies, donations, inheritance advance payments or any other event that implies a gratuitous monetary enrichment. The tax is payable by individuals and legal entities that are beneficiaries of a free transmission of assets.

For taxpayers domiciled in the Province of Buenos Aires, the tax is levied on the total amount of the gratuitous enrichment, in respect of property situated both in and outside of the Province of Buenos Aires. Instead, for taxpayers domiciled outside of the Province of Buenos Aires, the tax is levied only on the gratuitous enrichment resulting from the transmission of such property as is situated within the Province of Buenos Aires.

The following types of property, which may be freely transferred, are deemed situated in the Province of Buenos Aires (i) securities and shares of stock, notes, membership or equity interests and other negotiable instruments representing capital stock, issued by governmental or private entities and companies domiciled in the Province of Buenos Aires; (ii) securities, shares of stock and other negotiable instruments issued by private entities or companies domiciled in a different jurisdiction that were physically situated in the Province of Buenos Aires at the time of their transmission; and (iii) securities, shares of stock and other negotiable instruments representing capital stock or its equivalent issued by entities or companies domiciled in another jurisdiction which are also physically situated in another jurisdiction, in proportion to the issuer's assets situated in the Province of Buenos Aires.

Free transmissions of assets are exempt from tax when their aggregate value, excluding deductions, exemptions and exclusions, is equal to or lower than Ps.107,640 and it rises to Ps.448,500 in the case of parents, children and spouse. Step-up rates from 4% to 21.925% have been established, based on the degree of kinship and taxable base involved. The Province of Entre Ríos, by virtue of Law No. 10,197 published in the Official Gazette on January 24, 2013, implemented this Tax on a provincial level. This tax has similar characteristics as the tax applied by the Province of Buenos Aires.

Court Taxes

Should it become necessary to institute legal actions in relation to the Notes in Argentina, filing of any judicial proceeding in national courts in the City of Buenos Aires are subject to payment of a court fee, currently 3% of the claim amount. However, in certain special legal proceedings such as re-inscription of pledges or succession suits (in which the free transfer of Notes that form part of a hereditary stock can be verified), the applicable tax rate is reduced by 50%, to a rate of 1.5%.

Public Offering and Tax Exemption

Until the publication of the Joint Resolution No. 470-1738/2004 of the CNV and AFIP (the "Joint Resolution") in the Official Gazette on September 14, 2004, there was uncertainty with respect to the position of the Argentine tax authorities as concerns tax benefits of securities placed under public offerings, both those issued

originally (the existing notes) and those offered under an exchange offer, including exchange offers made within the scope of reorganization proceedings or out-of-court settlement agreements.

The Joint Resolution established that, for placement of securities abroad, the “public offering placement” requirement was exclusively to be construed under Argentine law (pursuant to Capital Markets Law), rather than under the foreign law. Therefore, “the provisions established by the laws or regulations of such foreign markets” and “the denomination provided to the offering under the foreign legislation” were irrelevant. Issues of notes offered under Rule 144A / Regulation S of the Securities Act were capable of placement under public offering (pursuant to Argentine laws).

While the Joint Resolution and its complementary rules and amendments were repealed by CNV General Resolution No. 664/2016, the concepts of public offering incorporated into regulatory and tax framework by the repealed Joint Resolution were incorporated by General Resolution No. 662 of the CNV.

For “public offering placement” to exist, it is necessary to show “effective placement efforts” under the terms of the Capital Markets Law. Therefore, mere existence of CNV authorization is not sufficient, but it is not necessary either to attain a given result, such as the minimum dispersion of investors criterion. In sum, “public offering placement” would be a “means obligation” rather than a “result obligation”. Public offering efforts may be made not only in Argentina but also abroad. Offerings may be made to the “general public” or to a “specified group of investors” or even “solely to institutional investors,” clarifying that the offering must not be always made to the general public.

The execution of an underwriting agreement is valid for the purposes of considering the public offering requirement fulfilled, to the extent evidence is provided of the fact that the underwriter offered the securities through all the means set forth under the Capital Markets Law.

The refinancing of “bridge loans” is an expressly accepted use of proceeds from the offering.

The Joint Resolution did not require the securities to be traded in a securities market in order to be considered as placed under a public offering (even though it is clarified in the whereas clause of the Joint Resolution that trading in a securities market of Argentina contributes to analyze the intention to offer them publicly). In the case of exchanges of notes for notes within the framework of a debt refinancing program, the benefits of notes originally placed by public offering are extended to the new notes offered for exchange, to the extent subscribers have also been holders thereof.

Furthermore, the CNV Rules provide in Article 3, Chapter IV, Title VI, that the public offering requirement established by the Capital Markets Law, shall be deemed to have been fulfilled always provided that the underwriter has executed an underwriting agreement with the issuer, trade securities once the public offering authorization has been obtained and use the primary placement mechanism provide in Article 1, Chapter IV, Title VI of the CNV Rules for the sale of securities acquired within the framework of the above-mentioned agreement.

The underwriter shall provide evidence to the issuer about the primary placement of securities through book building or auction or public bidding proceedings pursuant to the CNV Rules and the issuer shall keep such documents in order for the tax benefits provided for by the laws to apply.

Restriction with respect to low taxation jurisdictions

According to Tax Procedure Law (Law No. 11,683 as amended), any local entity receiving funds of any kind (that is, loans, capital contributions, etc.) from foreign entities located in low or no taxation jurisdictions, is subject to Income Tax and Value Added Tax on a 110% taxable base of the amounts received of such entities (subject to some limited exceptions). The foregoing is based upon an assumption that such amounts constitute unjustified asset increases for the local receiving party. Accordingly, Notes may not (i) be originally acquired by a person domiciled or incorporated in a low taxation jurisdiction, or (ii) be purchased by any person through a bank account opened in a low taxation jurisdiction. Low or no taxation jurisdictions, pursuant to Argentine legislation, are listed in Article 21.7 of Regulatory Decree of Argentine Income Tax Law.

Decree No. 589/2013 published in the Official Gazette on May 30, 2013 replaced Article 21.7 of Regulatory decree of Argentine Income Tax Law establishing that, to all effects set forth under Argentine Income Tax Law and regulatory decree thereof, any reference to low or no taxation countries should be construed as a reference to the countries which are not considered as cooperating countries for fiscal transparency purposes. Cooperating countries for fiscal transparency purposes are considered to be those countries executing an agreement

with Argentina for exchange of information concerning tax matters or an agreement to avoid international double taxation with a broad information exchange provision, always provided that such exchange of information is effectively complied with.

The Federal Administration of Public Revenues prepares and keeps an updated list of the countries considered as cooperating countries for fiscal transparency purposes, which are posted in its web page. The provisions of Decree No. 589/2013 are applicable since January 1, 2014.

THE ABOVE SUMMARY DOES NOT REPRESENT A FULL ANALYSIS OF ALL THE TAX CONSEQUENCES DERIVED FROM THE OWNERSHIP OF NEGOTIABLE OBLIGATIONS. POTENTIAL HOLDERS AND BUYERS SHOULD CONSULT THEIR OWN TAX ADVISERS REGARDING THEIR PARTICULAR TAX CONSEQUENCES.

INDEPENDENT ACCOUNTANTS

The financial statements as of and for the years ended December 31, 2016 and 2015 and as of and for the years ended December 31, 2015 and 2014 included in this offering memorandum, have been audited by Price Waterhouse & Co. S.R.L., independent accountants, as stated in their reports appearing herein (which include an emphasis of matters paragraph about differences between Argentine Central Bank Rules and certain aspects with professional accounting standards in effect in the Autonomous City of Buenos Aires).

With respect to the unaudited financial information of Banco Hipotecario S.A. for the six-month periods ended June 30, 2017 and 2016, included in this offering memorandum, Price Waterhouse & Co. S.R.L. reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated August 10, 2017 appearing herein (which include an emphasis of matters paragraph about a) differences between Argentine Central Bank Rules and certain aspects with professional accounting standards in effect in the Autonomous City of Buenos Aires and b) the fact that the Bank is currently undertaking a full review of their accounting systems in preparation for their timely adoption of IFRS) states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

LEGAL MATTERS

The validity of the creation of the Program and the issuance of each series of Notes thereunder and certain matters in connection with Argentine law will be passed upon by Zang, Bergel & Viñes Abogados, Argentine counsel to the Bank. Saúl Zang, Ernesto Manuel Viñes, and Pablo Vergara del Carril, each a director of the Bank, are also partners of Zang, Bergel & Viñes Abogados.

Certain legal matters in connection with U.S. federal securities laws and the laws of the State of New York will be passed upon for us by Simpson Thacher & Bartlett LLP, New York, New York, our counsel. Simpson Thacher & Bartlett LLP will rely on the opinion of Zang, Bergel & Viñes Abogados with respect to all matters of Argentine law, unless otherwise stated in the relevant pricing supplement.

GENERAL INFORMATION

- The creation of the Program was approved by resolution of our General Ordinary and Extraordinary Shareholders' Meeting dated May 23, 2008 and resolutions of our board of directors dated February 9, 2011, March 14, 2012, February 15, 2013, March 24, 2014, February 9, 2015, May 6, 2015, June 15, 2016 and November 9, 2016. The extension of the duration of our Program through July 28, 2021, was approved by resolution of our shareholders at our shareholders' meeting dated April 13, 2016 and resolution of our board of directors dated May 11, 2016.
- We expect that the Notes of each series will be accepted for clearance through the book-entry system of DTC, Euroclear and/or Clearstream, as more fully set forth in the applicable pricing supplement. The clearing systems for which a series of Notes will be eligible will be set forth in the applicable pricing supplement. In addition, CUSIP numbers, ISINs and Common Codes, if any, for each series of Notes will be contained in the applicable pricing supplement.
- We have obtained all necessary consents, approvals and authorizations in Argentina in connection with the establishment of the Program. The CNV authorized the public offer of the Program in Argentina by Resolution No. 16,573 dated May 24, 2011, Resolution No. 17,805 dated September 9, 2015, Resolution No. February 2, 2017 and the extension of the Program through July 28, 2021, was authorized by resolution No. 18,145 dated July 28, 2016.
- We are not involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes.
- Copies in English of our latest annual report and financial statements and our latest quarterly financial statements may be obtained, and copies of the applicable indenture or agency agreement, if any, will be available for inspection, at the specified offices of each of the Paying Agents and the Transfer Agents during normal business hours, so long as any Notes are outstanding or may be issued under the Program, unless otherwise stated in the relevant pricing supplement. In addition, a copy of this offering memorandum, any supplements thereto and any pricing supplement related to the series to be issued thereunder, may be obtained on the CNV's website (www.cnv.gob.ar) and the indicated office of the Luxembourg Paying Agent during normal business hours, so long as any Notes are outstanding or may be issued under the Program, unless otherwise stated.
- Except as otherwise disclosed in this offering memorandum or in the applicable pricing supplement relating to any series of Notes, there has been no material adverse change in our financial position since June 30, 2017.

FORM OF PRICING SUPPLEMENT

The pricing supplement that will be issued in respect of each series of Notes issued pursuant to the Program may include some or all of the following provisions to the extent relevant in the context of the particular series:

PRICING SUPPLEMENT DATED [•]
TO THE OFFERING MEMORANDUM DATED [•]
[AS SUPPLEMENTED BY THE OFFERING MEMORANDUM SUPPLEMENT DATED]

Banco Hipotecario S.A.
US\$1,500,000,000
Global Note Program

1. Series No:
2. Aggregate Principal Amount:
3. Issue Price:
4. Issue Date:
5. Authorized Denomination(s):
6. Specified Currency:
7. Specified Principal Payment Currency:
8. Specified Interest Payment Currency:
9. Maturity Date; Fixed Interest Rate and Zero Coupon:
10. Redemption Month; Variable Interest Rate:
11. Interest Basis: [Fixed Interest Rate, Variable Interest Rate, Zero Coupon]
12. Interest Commencement Date (if different from the Issue Date):
13. Fixed Interest Rate:
 - (a) Calculation Amount:
 - (b) Interest Rate: [] % per annum
 - (c) Interest Payment Date(s):
 - (d) Initial Broken Amount: [Amount per currency and denominations]
 - (e) Final Broken Amount: [Amount per currency and denominations]
 - (f) Fixed Rate Day Count Fraction(s) if not 30/360 basis:
14. Variable Interest Rate:
 - (a) Calculation Amount:
 - (b) Business Day Convention: [FRN Convention (to be used only if Specified Interest Period is expressed in months)/Modified Following Business Day Convention/Following Business Day Convention/Other (specify)]
 - (c) Specified Interest Period:
 - (d) Interest Payment Dates: [Specify if different from Normal Convention]
 - (e) Benchmark and Reference Rate(s): [Specify, including whether Bid, Offer or Mean]
 - (f) Primary Source for Interest Rate Quotations for Reference Rate(s): [Relevant Screen Page/Reference Banks]
 - (g) Specified Screen Page:
 - (h) Reference Banks:
 - (i) Calculation Agent:
 - (j) Interest Determination Date:
15. Basis of Calculation of Variable Interest Rate and Interest Payment Dates and default interest:
16. Other Variable Interest Rate Terms:
 - (a) Minimum Interest Rate:
 - (b) Maximum Interest Rate:
 - (c) Spread: [+/- [] per annum]
 - (d) Spread Multiplier:
 - (e) Variable Rate Day Count Fractions(s) if not actual/360:
 - (f) Relevant Banking Center:

17. Zero Coupon
 - (a) Amortization Yield:
 - (b) Reference Price:
 - (c) Basis: [Straightline/Compounded at [specify] intervals]
 - (d) Fixed Rate Day Count:
Fraction(s) if not 30/360 basis:
18. Relevant Business Day [Specify other financial center(s)]
19. Relevant Financial Center: [Specify other financial center(s)]
20. Redemption Amount or the Basis of Calculation of the Variable Redemption Amount:
21. Redemption at the Option of the Bank [Yes/No]
 - (a) Notice Period: [Specify maximum and minimum number of days for deposit period]
 - (b) Amount: [All or less than all and, if less than all, minimum amounts]
 - (c) Date(s):
 - (d) Call Redemption Amount:
22. Redemption at the Option of the Noteholders: [Yes/No]
 - (a) Deposit Period: [Specify maximum and minimum number of days for deposit period]
 - (b) Amount: [All or less than all and, if less than all, minimum amounts]
 - (c) Date(s):
 - (d) Put Redemption Amount:
 - (e) Withdrawal of Notes:
23. Alternative Payment Mechanism:
24. Unmatured Coupons Void: [Yes/No]
25. Talons:
 - (a) Talons for Future Coupons to be attached [Yes/No] to Definitive Notes:
 - (b) Reference Date(s) or Interest Payment Date(s) on which the Talons (if any) mature:
26. Early Redemption Amount (including accrued interest, if any):
27. Additional Provisions relating to the Notes:

Other Relevant Terms

1. Listing (if yes; specify Stock Exchange):
2. Syndicated: [Yes/No]
3. If Syndicated:
 - (a) Lead Manager:
 - (b) Stabilizing Manager:
4. Commissions and Concessions:
5. Codes:
 - (a) Common Code:
 - (b) ISIN:
 - (c) CUSIP:
 - (d) Other:
6. Identity of Dealer(s)/Manager(s):
7. Provisions for Registered Notes
 - (a) DTC Unrestricted Global Note: [Yes/No]
 - (b) DTC Unrestricted Global Note: [Yes/No]
8. Use of Proceeds:

ANNEX I – SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN CENTRAL BANK ACCOUNTING RULES AND IFRS

The Bank's consolidated financial statements have been prepared in accordance with Central Bank Accounting Rules, which differs in certain significant respects from IFRS. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by IFRS.

The main measurement differences between Central Bank Accounting Rules and IFRS as they relate to the Bank are described below, together with an explanation, where appropriate, of the method used in the determination of the necessary adjustments.

a. Loan origination fees and costs

Under Central Bank Accounting Rules, the Bank does not defer loan origination fees and costs on mortgage, personal and credit card loans, different from those originated under the Programa de Crédito Argentino del Bicentenario para la Vivienda Única Familiar ("PROCREAR") Program.

Given the Bank's role as Trustee of the PROCREAR Administrative and Financial Trust, it has capitalized direct expenses incurred in the mortgage loan origination process, which disbursements would not have been incurred by it had it not been for the grant of the related loans, in accordance with the provisions of Communication "A" 5392. Under Central Bank Accounting Rules, such origination expenses are amortized in 60 monthly installments.

In accordance with IFRS, under IAS 39 loan origination fees and certain direct and incremental loan origination costs should be recognized over the life of the related loan as an adjustment of yield.

As regards the expenses corresponding to the PROCREAR Trust, under IFRS such expenses should be treated as investment management fees under IAS 18. Fees for managing investments are recognized as revenue as the service are provided and where costs are incurred are recognized as an asset if they can be separately identified and reliably measured and if it is probable that such costs are recoverable.

b. Loan loss reserve

The Bank's accounting for its allowance for loan losses differs in some significant respects with practices of IFRS. Under Central Bank Accounting Rules, the allowance for loan losses is calculated according to specific criteria. This criterion is different for commercial loans (those in excess of Ps.2,500) and consumer loans. Loan loss reserves for commercial loans are principally based on the debtors' payment capacity and cash-flows analysis. Loan loss reserves for consumer loans are based on the client's aging. Argentine banks may maintain other reserves to cover potential loan losses which management believes to be inherent in the loan portfolio, and other Central Bank required reserves.

Under IFRS, following IAS 39, where an incurred loss model is used, a financial asset or group of assets is impaired, and impairment losses are recognized, only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset. An entity is required to assess at each balance sheet date whether there is any objective evidence of impairment. If any such evidence exists, the entity is required to do a detailed impairment calculation to determine whether an impairment loss should be recognized. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate.

Assets that are individually assessed and for which no impairment exists are grouped with financial assets with similar credit risk statistics and collectively assessed for impairment.

Specifically:

- a) Loans considered impaired, in accordance with IAS 39, are recorded at the present value of the expected future cash flows discounted at the loan's effective contractual interest rate or at the fair value of the collateral if the loan is collateral dependent.
- b) Following IAS 39, historical loss ratios are determined by analyzing historical losses, in order to calculate the allowance required for smaller-balance impaired loans and unimpaired loans for IFRS purposes. Loss estimates are analyzed by loan type and thus for homogeneous groups of clients.

The IASB published the final version of IFRS 9 in July 2014, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 is built on a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however early application is permitted.

c. Derivative Financial Instruments

The Bank entered in several derivative transactions, mainly, to hedge: (i) the exchange rate risk attached to liabilities denominated in foreign currency, and (ii) interest rate swaps to manage its interest rate risk.

Under Central Bank Accounting Rules, currency swaps are recorded on the basis of the net asset or liability derived from the accrual of interest receivable in foreign currency, minus the accrual of interest payable in for (both derived from the current coupon of the swap). Gains and losses are recorded in earnings in each period.

Under IFRS, the Bank accounts for derivative financial instruments in accordance with IFRS 9 which establishes that derivatives are measured at fair value. Value changes are recognized in profit or loss unless the entity has elected to apply hedge accounting by designating the derivative as a hedging instrument in an eligible hedging relationship.

If certain eligibility and qualification criteria are met, hedge accounting allows an entity to reflect risk management activities in the financial statements by matching gains or losses on financial hedging instruments with losses or gains on the risk exposures they hedge.

The Bank's derivatives do not qualify for hedge accounting treatment under IFRS.

d. Government securities

Under Central Bank Accounting Rules, some government bonds, unquoted securities issued by the Central Bank and bills issued by provincial governments have been recorded at cost, net of contra-accounts, if applicable. This value increases monthly on the basis of the internal rate of return resulting from the interest rate which, used as discount, matches the cash flow's present value with the initial value.

Under IFRS these securities must be recorded at fair value.

e. Financial liabilities

The Bank has issued several series of negotiable obligations in different terms and conditions. Under Central Bank Accounting Rules, the costs of originating such instruments have been charged to the Income Statement at the issuance date.

According to IFRS 9, financial liabilities are initially measured at fair value. This is generally the same as cost. In the case of financial assets and liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue are included in the cost.

f. Fair value measurement

Under Central Bank Accounting Rules, financial assets and liabilities are initially measured at cost. Subsequently, those instruments are recorded in accordance with its classification, as mentioned in d. *Government securities* and e. *Financial liabilities*.

Under IFRS, financial assets and liabilities measured at fair value (both at initial recognition and subsequently), must comply with the requirements of IFRS 13.

g. Securitizations

For Central Bank Accounting Rules purposes, the debt securities and certificates retained by the Bank are accounted for at cost plus accrued interest for the debt securities, and the equity method is used to account for the residual interest in the trust.

Under IFRS several financial trusts are not considered to constitute derecognition of financial assets. The basic premise for the de-recognition model in IAS 39 is to determine whether the asset under consideration for derecognition has been transferred, and if so, whether the transfer of that asset is subsequently eligible for derecognition.

An asset is transferred if either the entity has transferred the contractual rights to receive the cash flows, or the entity has retained the contractual rights to receive the cash flows from the asset, but has assumed a contractual obligation to pass those cash flows on under an arrangement that meets the following three conditions:

- (i) the entity has no obligation to pay amounts to the eventual recipient unless it collects equivalent amounts on the original asset
- (ii) the entity is prohibited from selling or pledging the original asset (other than as security to the eventual recipient)
- (iii) the entity has an obligation to remit those cash flows without material delay

Once an entity has determined that the asset has been transferred, it then determines whether or not it has transferred substantially all of the risks and rewards of ownership of the asset. If substantially all the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been retained, derecognition of the asset is precluded.

If the entity has neither retained nor transferred substantially all of the risks and rewards of the asset, then the entity must assess whether it has relinquished control of the asset or not. If the entity does not control the asset then derecognition is appropriate; however if the entity has retained control of the asset, then the entity continues to recognize the asset to the extent to which it has a continuing involvement in the asset.

These various derecognition steps are summarized in the decision tree in paragraph B3.2.1. of IFRS 9.

According to IFRS, a subsidiary is an entity controlled by another entity, the parent. The definition of control for IFRS is wider than under Central Bank Accounting Rules. IFRS 10 prescribes a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns.

h. Intangible Assets

Software costs

Under Central Bank Accounting Rules fees paid for a re-engineering project and for restructuring expenses incurred in relation to certain equity transactions are recognized as an intangible asset and amortized in a maximum of five years. Such cost should be expensed as incurred under IFRS.

Under Central Bank Accounting Rules, the Bank capitalizes costs relating to all three of the stages of software development. Under IFRS development costs should be capitalized only after technical and commercial feasibility of the resulting product or service have been established and all research costs are charged to expense when incurred.

Other intangible assets

On January 13, 2011, Tarshop, acquired from APSA Media S.A. (formerly Metroshop S.A.) a portfolio of credit cards delinquent by less than 60 days; a contractual position in contracts for the issuance of credit cards; the accounts of customers, the lease agreements and movable property at certain branches and the contracts of employment with personnel under a labor relationship. Under Central Bank Accounting Rules, no intangible assets should be recognized in accordance with these transactions.

Under IFRS assets are recognized based on their cost to the acquiring entity, which generally includes the transaction costs of the assets acquisition, and no gain or loss is recognized unless the fair value of noncash assets given as consideration differs the assets' carrying amount on the acquiring entity's books. The cost of a group of assets acquired shall be allocated to the individual assets acquired or liabilities assumed based on their relative fair values and shall not give rise to goodwill.

Business combinations

(i) *Acquisition of Tarshop.* On August 30, 2010, the Financial and Exchange Institutions Superintendency of the Central Bank authorized of the acquisition of the 80% of Tarshop, which consisted of 107,037,152 non-endorsable, registered common shares, par value Ps.1 per share, and entitled to one vote per share, for a total amount of US\$26.8

million. Pursuant to Central Bank Accounting Rules and due to the difference between the acquisition cost and the estimated fair value of assets and liabilities acquired, a goodwill amounting to Ps.29,568 thousand was recorded under Intangible Assets – Goodwill. This goodwill is subsequently charged to Income on a straight-line basis during 60 months.

IFRS requires the acquisition of controlling interest of Tarshop to be accounted for as a business combination, according to IFRS 3, applying the acquisition method, recognizing all net assets acquired at their fair value.

(ii) *Acquisition of additional shares of BACS.* On May 24, 2012, the Financial and Exchange Institutions Superintendency of the Central Bank authorized the acquisition of 17.5% of BACS, as a result, of the aforementioned the Bank's interest in BACS's capital stock increased from 70% to 87.5%. Under Central Bank Accounting Rules, the Bank recognized a gain corresponding to the difference between the fair value of the consideration paid and the related carrying value of the NCI acquired.

For IFRS purposes an acquisition on additional interest obtained when the control is maintained should be accounted for as an equity transaction. As such the Bank under IFRS: a) does not recognize a gain in the income statement, b) recognizes the difference between the fair value of the consideration paid and the related carrying value of the non-controlling interest acquired in the controlling interests' equity and c) reclassifies the carrying value of the non-controlling interest obtained from the non-controlling interest to the controlling interests' equity.

(iii) *Acquisition of BACS Administradora de Activos S.A. S.G.F.C.I.* On April 26, 2012 BACS acquired 85% of BACS Administradora de Activos S.A. S.G.F.C.I. (formerly FCMI Argentina Financial Corporation S.A. S.G.F.C.I.). The purchase price was Ps.6.0 million. Pursuant to Central Bank Accounting Rules, and due to the difference between the acquisition cost and the estimated fair value of assets and liabilities acquired as of April 30, 2012, a goodwill amounting to Ps.4,728 thousand was recorded under Intangible Assets – Goodwill. This goodwill is subsequently charged to income on a straight-line basis during 120 months.

IFRS requires the acquisition of controlling interest of BACS Administradora de Activos S.A. S.G.F.C.I. (formerly FCMI Argentina Financial Corporation S.A. S.G.F.C.I.) to be accounted for as a business combination, according to IFRS 3, applying the acquisition method, recognizing all net assets acquired at their fair value.

Under Central Bank Accounting Rules, goodwill amortization is reversed for IFRS purposes because according to IAS 36, goodwill and other intangibles with indefinite useful lives are tested for impairment at least annually and recoverable amount calculated.

i. Non-controlling interest

Central Bank Accounting Rules require recording non-controlling interests as a component of the liabilities. IAS 1 requires presenting such interests as within equity. In addition, the IFRS adjustment represents the allocation to the non-controlling interest of non-wholly owned subsidiaries of certain IFRS adjustments related to such subsidiaries.

j. Provisions

The Bank's policy for vacation benefits is to expense such benefits as taken. For IFRS purposes, the vacation accrual is based on an accrual basis, where earned but untaken vacation is recognized as a liability.

Pursuant to Communication "A" 5689 of the Central Bank, beginning in January 2015, financial institutions are required to create allowances for 100% of the administrative and/or disciplinary sanctions and criminal penalties supported by first instance court rulings, applied or pursued by the Central Bank, the Financial Information Unit, the Argentine Securities Commission and the Argentine Superintendency of Insurance, of which notice has been served to the relevant institution, irrespective of their significance, even if their payment has been suspended by court or administrative measures and notwithstanding the status of the proceedings.

According to IFRS, as stated in IAS 37, a provision is recognized only when a past event has created a legal or constructive obligation, an outflow of resources is probable and the amount of the obligation can be estimated reliably. The amount recognized as a provision is the best estimate of the settlement amount at the end of the reporting period.

k. Insurance Technical reserve

Until September 2003, the calculation of the local technical reserves performed by the Bank was the same as that used under IFRS. On September 2003, the Argentine Superintendency of Insurance issued certain regulations on

the calculation of reserves introducing changes to the local regulations. For IFRS purposes the Bank has accounted these insurance technical reserves under IFRS 4.

1. Deferred Income Tax

Central Bank Accounting Rules requires income taxes to be recognized on the basis of amounts due in accordance with Argentine tax regulations. Temporary differences between the financial reporting and income tax bases of accounting are therefore not considered in recognizing income taxes.

In accordance with IFRS, as stated in IAS 12, income taxes are recognized on the liability method whereby deferred tax assets and liabilities are established for temporary differences between the financial reporting and tax bases of our assets and liabilities. Deferred tax assets are also recognized for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized for that component of net deferred tax assets which is “more likely than not” that it will not be recoverable.

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As of June 30, 2017, presented in comparative format

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Independent Auditor's Report

To the Board of Directors and Shareholders of
Banco Hipotecario S.A.

We have audited the accompanying consolidated financial statements of Banco Hipotecario S.A. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting rules prescribed by the *Banco Central de la República Argentina* (the "Argentine Central Bank"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Argentina and performed the auditing procedures required by the Argentine Central Bank. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco Hipotecario S.A. and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting rules prescribed by the Argentine Central Bank.

Emphasis of Matter

As described in Note 1.b. to the consolidated financial statements, the consolidated financial statements have been prepared in accordance with accounting rules prescribed by the Argentine Central Bank, which differ in certain respects from, and is a comprehensive basis of accounting other than, Argentine generally accepted accounting principles applicable to enterprises in general. Our opinion is not modified with respect to this matter.

Buenos Aires, Argentina February 13, 2017

Price Waterhouse & Co S.R.L.

A handwritten signature in black ink, appearing to read 'D. Sisto', is written over a horizontal line.

Diego L. Sisto
Partner

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

As of December 31, 2016 and 2015

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	December 31,	
	2016	2015
ASSETS		
Cash and due from banks		
Cash.....	Ps. 756.704	Ps 642,791
Financial institutions and Correspondents.....	6.431.575	5,736,002
Argentine Central Bank (B.C.R.A.).....	5.355.489	5,517,127
Other domestic institutions.....	15.181	10,325
Other foreign institutions.....	1.060.905	208,550
	7,188,279	6,378,793
Government and corporate securities (Note 5)		
Holdings booked at fair market value.....	2.522.425	2,519,133
Holdings booked at cost plus return.....	1.017.085	528,936
Investments in listed corporate securities.....	352.854	590,328
Securities issued by the BCRA.....	1.116.910	1,814,986
Allowances	(11.662)	(7,121)
	4,997,612	5,446,262
Loans		
To the non-financial public sector.....	153.032	46,999
To the financial sector.....	636.950	198,130
Interfinancial (call granted).....	50.000	-
Other loans to domestic financial entities.....	555.726	196,269
Accrued interest, adjustments and quotation differences receivable.....	31.224	1,861
To the non-financial private sector and foreign residents.....	27.050.101	20,576,555
Overdrafts facilities.....	290.153	493,226
Promissory notes.....	687.965	310,407
Mortgage loans.....	2.744.734	2,631,874
Pledge loans.....	640.365	427,857
Personal loans.....	4.611.052	2,970,468
Credit card loans.....	12.663.403	9,903,383
Unallocated collections.....	(1.166)	(169,487)
Other (Note 6).....	5.166.467	3,778,237
Accrued interest and quotation differences receivable.....	293.006	260,161
Documented interest.....	(45.878)	(29,571)
Allowances (Note 9).....	(676.141)	(451,751)
	21,163,942	20,369,933
Other receivables from financial transactions		
Argentine Central Bank.....	691.913	535,922
Amounts receivable for spot and forward sales to be settled.....	1.368.657	868,187
Securities to be received under spot and forward purchases to be settled.....	2.503.986	379,276
Negotiable obligations without quotation.....	322.118	128,327
Balances of forward transactions not yet settled without delivery of underlying asset.....	169.717	18,828
Others not included in the debtor classification regulations (Note 7).....	4.097.312	2,612,831
Others included in the debtor classification regulations	115.509	24,169
Accrued interest receivable included in the debtor classification regulations	7.110	8,076
Allowances.....	(14.190)	(22,360)
	9,262,132	4,553,256

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET – (Continued)

As of December 31, 2016 and 2015

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	December 31,	
	2016	2015
Assets under financial leases.....		
Receivables for financial leases	155,775	129,179
Accrued interest and adjustments receivable	3,087	2,516
Allowances	(1,453)	(1,444)
	157,409	130,251
Investments in other companies	101,020	112,858
Miscellaneous receivables		
Minimum presumed income tax – fiscal credit.....	97,447	77,416
Others (Note 8).....	1,886,759	1,604,652
Other accrued interest receivable.....	787	2,343
Allowances.....	(10,811)	(10,811)
	1,974,182	1,673,600
Bank premises and equipment (Note 10).....	390,228	242,810
Miscellaneous assets (Note 11).....	296,068	65,120
Intangible assets (Note 10)		
Goodwill.....	13,363	16,792
Organization and development expenses.....	554,001	461,427
	567,364	478,219
Items pending allocation.....	9,874	6,797
Total Assets	Ps. 52,108,110	Ps. 39,457,899

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET – (Continued)

As of December 31, 2016 and 2015

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	December 31,	
	2016	2015
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits (Note 12)		
Non-financial public sector..... Ps.	2,536,836	Ps. 6,819,957
Financial sector.....	6,394	8,361
Non-financial private sector and foreign residents.....	16,441,762	13,563,895
Current accounts.....	881,421	648,295
Savings accounts.....	3,329,855	2,502,529
Time deposits.....	10,613,088	8,489,757
Investment accounts.....	1,013,895	1,550,115
Others.....	318,055	171,906
Accrued interest and quotation differences payable.....	285,448	201,293
	18,984,992	20,392,213
Other liabilities from financial transactions		
Argentine Central bank.....	56	102
Other.....	56	102
Unsubordinated negotiable obligations (Note 16).....	16,018,680	7,010,046
Amounts payable under spot and forward purchases to be settled...	2,295,724	338,469
Securities to be delivered under spot and forward sales to be settled.....	1,422,674	930,814
Loans received from domestic financial institutions.....	707,468	627,553
Interfinancial loans (call received).....	265,000	130,000
Other loans from domestic financial institutions.....	434,475	489,514
Accrued interest payable.....	7,993	8,039
Balances of forward transactions not yet settled without delivery of underlying asset.....	187,108	169,288
Others (Note 13).....	2,931,778	1,700,602
Accrued interest and quotation differences payable.....	623,850	147,873
	24,187,338	10,924,747
Miscellaneous liabilities		
Dividends payable.....	-	-
Fees.....	55,270	66,628
Others (Note 14).....	2,154,603	2,119,884
Accrued interest and quotation differences payable.....	10,320	14,330
	2,220,193	2,200,842
Provisions (Note 15).....	325,847	257,233
Subordinated bonds (Note 17).....	136,838	110,622
Items pending allocation.....	38,967	45,467
Non-controlling interest	157,707	85,871
Total Liabilities	46,051,882	34,016,995
SHAREHOLDERS' EQUITY	6,056,228	5,440,904
Total Liabilities and Shareholders' Equity Ps.	52,108,110	Ps. 39,457,899

The accompanying notes are an integral part of these consolidated financial statements.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2016, 2015 and 2014
(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Financial income			
Interest on cash and due from banks.....	15.314	3,675	15
Interest on loans to the financial sector.....	100.777	53,373	61,944
Interest on overdraft facilities.....	209.905	243,929	286,263
Interest on promissory notes.....	129.614	95,721	108,969
Interest on mortgage loans.....	490.490	433,639	358,216
Interest on pledge loans.....	154.632	131,265	25,566
Interest on credit card loans.....	3,477.649	2,153,739	1,462,040
Interest on financial leases.....	33.379	27,991	16,474
Interest on other loans.....	2,320.980	1,903,082	1,527,803
Interest on other receivables for financial transactions.....	20.463	22,775	24,314
Net income from government and corporate securities.....	2,178.541	1,764,289	974,592
Adjustments from application of CER clause.....	7.450	9,622	32,379
Adjustments from application of CVS clause.....	9	11	8
Others (Note 19).....	238,755	403,501	416,316
	<u>9,377,958</u>	<u>7,246,612</u>	<u>5,294,899</u>
Financial expenses			
Interest on saving accounts deposits.....	3.250	2,981	2,011
Interest on time deposits.....	2,992.719	2,110,592	1,507,010
Interest on interfinancial loans received.....	37.117	16,636	14,609
Interest on other loans from financial institutions...	138.380	76,807	84,326
Interest on other liabilities resulting from financial transactions.....	1,873.798	942,859	602,727
Interest on subordinated bonds.....	26.216	10,622	-
Other interest.....	337.545	188,906	152,051
Gold and foreign currency quotation differences...	276.830	198,116	108,909
Contribution to the deposits security fund.....	60.474	122,825	35,115
Others (Note 19).....	812.249	541,787	466,620
	<u>6,558,578</u>	<u>4,212,131</u>	<u>2,973,378</u>
Gross intermediation margin.....	Ps. 2,819,380	Ps. 3,034,481	Ps. 2,321,521
Provision for loan losses (Note 9).....	466,365	354,179	343,437
Income from services			
Linked with lending transactions.....	2,140.797	1,245,974	902,093
Linked with borrowing transactions.....	174.411	135,069	87,972
Other commissions.....	19.851	17,157	10,296
Others (Note 20).....	2,804.829	2,536,195	1,609,089
	<u>5,139,888</u>	<u>3,934,395</u>	<u>2,609,450</u>

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2016, 2015 and 2014
(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Expenses for services			
Commissions.....	412,070	173,739	157,018
Others (Note 20).....	839,383	735,081	542,614
	<u>908,820</u>	<u>908,820</u>	<u>699,632</u>
Administrative expenses			
Personnel expenses.....	2,769,210	2,313,783	1,674,466
Directors' and Syndics' fees.....	52,501	90,773	55,976
Other fees (Note 21).....	661,024	437,160	293,185
Advertising expenses.....	117,017	173,384	171,894
Taxes.....	253,555	213,188	145,519
Depreciation of bank premises and equipment.....	80,577	45,560	27,675
Amortization of organization and development expenses.....	149,120	99,504	56,767
Other operating expenses (Note 21).....	735,161	482,967	322,822
Other.....	196,296	96,273	107,434
	<u>5,014,461</u>	<u>3,952,592</u>	<u>2,855,738</u>
Net income from financial transactions.....	Ps. 1,226,989	Ps. 1,753,285	Ps. 1,032,164
Miscellaneous income			
Income from equity investments.....	35,656	13,767	3,748
Penalty interests.....	96,964	98,366	77,329
Loans recovered and allowances reversed.....	219,592	265,493	105,330
Others (Note 22).....	160,314	117,358	94,127
	<u>512,526</u>	<u>494,984</u>	<u>280,534</u>
Miscellaneous expenses			
Penalty interest and charges in favor of BCRA.....	606	292	910
Loan loss provision for miscellaneous receivables and other provisions.....	164,896	171,951	116,593
Depreciation and loss of miscellaneous assets.....	515	519	345
Amortization of goodwill.....	3,430	3,430	3,430
Other (Note 22).....	423,904	370,441	240,460
	<u>593,351</u>	<u>546,633</u>	<u>361,738</u>
Income before income taxes and Non-controlling interest.....	Ps. 1,131,507	Ps. 1,704,713	Ps. 950,960
Income taxes (Note 24).....	516,179	618,899	426,641
Non-controlling interest.....	14,657	(3,077)	25,653
Net income for the year.....	<u>Ps. 615,328</u>	<u>Ps. 1,085,814</u>	<u>Ps. 549,972</u>

The accompanying notes are an integral part of these consolidated financial statements.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2016 and 2015
(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	Common stock (Note 26)	Paid in capital (Note 26)	Treasury stock (Note 26)	Inflation adjustment of common stock (Note 26)	<u>Reserves</u>		Retained
					Legal (Note 26)	Voluntary (Note 26)	Earnings
Balance as of December 3, 2013.....	Ps. 1,463,365	Ps. 834	Ps. 54,149	Ps. 699,601	Ps. 595,549	Ps. 612,487	Ps.
Retained earnings distribution approved by the General Shareholders' Meeting held on April 24, 2014	-	-	-	-	84,190	336,760	
Net income for the year	-	-	-	-	-	-	
Balance as of December 31, 2014.....	Ps. 1,463,365	Ps. 834	Ps. 54,149	Ps. 699,601	Ps. 679,739	Ps. 949,247	Ps.
Distribution of dividends approved by the General Shareholders' Meeting	-	-	-	-	-	-	
Retained earnings distribution approved by the General Shareholders' Meeting	-	-	-	-	109,994	103,218	
Net income for the year	-	-	-	-	-	-	
Balance as of December 31, 2015.....	Ps. 1,463,365	Ps. 834	Ps. 54,149	Ps. 699,601	Ps. 789,733	Ps. 1,052,465	Ps.
Distribution of dividends approved by the General Shareholders' Meeting	-	-	-	-	-	-	
Retained earnings distribution approved by the General Shareholders' Meeting	-	-	-	-	217,163	-	
Net income for the year	-	-	-	-	-	-	
Balance as of December 31, 2016.....	Ps. 1,463,365	Ps. 834	Ps. 54,149	Ps. 699,601	Ps. 1,006,896	Ps. 1,052,465	Ps.

The accompanying notes are an integral part of these consolidated financial statements

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2016, 2015 and 2014
(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash at beginning of fiscal year.....	Ps. 6,378,793	Ps. 5,368,514	Ps. 2,240,567
Cash at year end.....	7,188,279	6,378,793	5,368,514
Net increase / (decrease) in cash.....	Ps. <u>809,486</u>	Ps. <u>1,010,279</u>	Ps. <u>3,127,947</u>
<u>Causes of change changes</u>			
Operating activities			
Net collection / (payment) on:			
Government and corporate securities.....	446,650	(928,227)	(2,777,448)
Loans			
To the financial sector.....	(106,033)	141,060	40,118
To the non-financial public sector	(438,820)	65,132	27,242
To the non-financial private sector and foreign residents.....	(6,473,546)	(3,690,779)	(4,511,634)
Other receivables from financial transactions.....	(7,334,056)	(3,076,054)	(541,891)
Deposits			
To the financial sector.....	(4,283,121)	(2,280,865)	4,958,013
To the non-financial public sector	-	945	-
To the non-financial private sector and foreign residents.....	2,877,867	4,338,020	2,486,999
Other (except for liabilities under financing activities).....	6,703,118	2,620,070	639,577
Collections linked with income from services.....	5,139,888	3,934,395	2,609,450
Payments linked with expenses for services.....	(1,251,453)	(908,820)	(699,632)
Administrative expenses paid.....	(5,244,338)	(4,097,656)	(2,940,180)
Collection net of penalty interest.....	96,964	98,366	77,329
Payment of organization and development expenses.....	(89,145)	(135,291)	(144,341)
Other (payments) linked to miscellaneous income and expenses.....	(452,196)	(493,298)	(278,901)
Net collection / (Payment) from other operating activities.....	9,214	(71,364)	294,350
Net cash flow (used in) operating activities.....	Ps. <u>(10,397,007)</u>	Ps. <u>(4,484,366)</u>	Ps. <u>(760,949)</u>
Investment activities:			
Net payment on bank premises and equipment.....	(378,366)	(82,981)	(54,757)
Payment of dividends.....	-	(41,956)	-
Net cash flow (used in) by investment activities.....	Ps. <u>(378,366)</u>	Ps. <u>(124,937)</u>	Ps. <u>(54,757)</u>
Financing activities:			
Collections on unsubordinated negotiable obligations.....	9,008,634	2,662,962	1,698,654
Issue of subordinated bonds.....	26,216	110,622	-
Net cash flow originated by financing activities.....	Ps. <u>9,034,850</u>	Ps. <u>2,773,584</u>	Ps. <u>1,698,654</u>
Financial gain on holding of cash and cash equivalent (including interest and monetary results).....	2,550,009	2,845,998	2,244,999
Net increase / (decrease) in cash.....	Ps. <u>809,486</u>	Ps. <u>1,010,279</u>	Ps. <u>3,127,947</u>

The accompanying notes are an integral part of these consolidated financial statements.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2015 and 2014 and for the three years in the years ended December 31, 2016
(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

1. General

a. Description of business

Banco Hipotecario SA (herein after referred to as the “Bank” or “BHSA”), is a commercial bank, organized under the laws of Argentina.

The Bank historically has provided general banking services, focused on individual residential mortgage loans and construction-project loans directly to customers as well as indirectly through selected banks and other financial intermediaries throughout Argentina. In 2004, as part of its business diversification strategy, the Bank expanded its product offerings, beginning to offer personal loans, credit card loans and also engaging in mortgage loan securitizations, mortgage loan servicing, other corporate loans and insurance in connection with its lending activities.

b. Basis of presentation

The consolidated financial statements of the Bank have been prepared in accordance with the rules of Banco Central de la República Argentina (“Argentine Central Bank” or “BCRA”) which prescribe the accounting reporting and disclosure requirements for banks and financial institutions in Argentina (“Argentine Banking GAAP”). These rules differ in certain respects from generally accepted accounting principles in Argentina (“Argentine GAAP”) applicable to enterprises in general.

Certain reclassifications of prior period’s information have been made to conform to the current period presentation. Such reclassifications do not have a significant impact on the Bank financial statements.

c. Principles of consolidation

The consolidated financial statements include the accounts of the Bank and its subsidiaries over which the Bank has effective control. The percentages directly or indirectly held in those companies’ capital stock as of December 31, 2015 and 2014 are as follows:

Issuing Company	% held of capital stock
BHN Sociedad de Inversión Sociedad Anónima	100.00%
BHN Seguros Generales Sociedad Anónima	100.00%
BHN Vida Sociedad Anónima	100.00%
BACS Banco de Crédito y Securitización Sociedad Anónima	87.50%
BACS Administradora de activos S.A. S.G.F.C.I.	85.00%
Tarshop S.A. (*)	80.00%
BH Valores SA	100.00%

(*) On September 11, 2015, the Board of Directors of Banco Hipotecario S.A. approved an irrevocable capital contribution to Tarshop S.A. of Ps. 52,500 to be made by shareholders Banco Hipotecario S.A. and IRSA Propiedades Comerciales S.A. pro rata of their shareholdings. Additionally, on November 4, 2015, an irrevocable capital contribution to Tarshop S.A. of Ps. 52,500 to be made by shareholders Banco Hipotecario S.A. and IRSA Propiedades Comerciales S.A. pro rata of their shareholdings, was approved by the Board of Directors of Banco Hipotecario S.A..

The procedure followed by the Bank to include the controlled investees BHN Sociedad de Inversión Sociedad Anónima –consolidated– and BACS Banco de Crédito y Securitización Sociedad Anónima - consolidated-, BH Valores SA and Tarshop SA's accounts was as follows:

BANCO HIPOTECARIO SA AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2015 and 2014 and for the three years in the years ended December 31, 2016
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- 1.1. The Bank's financial statements have been prepared in line with the valuation and disclosure standards laid down by the Central Bank of the Republic of Argentina, including consolidated balances reported in the Balance Sheet, the Statement of Income, Memorandum Accounts and Statement of Cash Flow and Cash Equivalents of the referred companies, in compliance with such standards.
- 1.2. Items resulting from intercompany transactions not disclosed to third parties were eliminated from the Balance Sheet, the Statement of Income, Memorandum Accounts and Statement of Cash Flow and Cash equivalents and.
- 1.3. The portion of the Shareholders' Equity corresponding to the minority interest has been disclosed in the Consolidated Balance Sheet, in the line captioned "Minority Interest".
- 1.4. The portion of the net income/ (loss) on the minority interest has been disclosed in the Consolidated Statement of income, in the line captioned "Net income / (loss) on Minority Interest".

d. Presentation of financial statements in constant argentine pesos

The financial statements have been adjusted for inflation in conformity with the guidelines set in Communication "A" 551 of the Argentine Central Bank up to the financial year ended December 31, 1994, and prepared in accordance with the standards laid down by CONAU 1 Circular. As from January 1, 1995, and according to the authorization accorded by Resolution N° 388 of the Argentine Central Bank's Superintendency of Financial and Exchange Institutions, the Bank discontinued the adjustment for inflation of its financial statements until December 31, 2001. As from January 1, 2002, as a result of the application of Communication "A" 3702 which established the repeal of any legal and regulatory rule that did not allow companies to restate their accounting balances at year-end currency values, the Bank resumed the application of the adjustment for inflation in accordance with the rules issued in due time by the Argentine Central Bank using the adjustment coefficient derived from the domestic wholesale price index published by the National Statistics and Census Institute (INDEC). Furthermore, it has been considered that the accounting measurements derived from the changes in the purchasing power of the currency between December 31, 1994 and 2001 are stated in the currency value as of the latter date.

On March 25, 2003, the Executive Branch issued Decree 664 establishing that the financial statements for years ending as from that date are to be stated in nominal currency. Consequently, in accordance with Communication "A" 3921 of the BCRA, the restatement of the financial statements was discontinued as from March 1, 2003.

2. Significant Accounting Policies

The following is a summary of significant accounting policies used in the preparation of the consolidated financial statements.

2.1. Foreign Currency Assets and Liabilities

US dollar assets and liabilities have been valued at the rate of exchange between the peso and the US dollar published by the Argentine Central Bank. Assets and liabilities valued in foreign currencies other than the US dollar were converted into the latter currency using the swap rates communicated by the Argentine Central Bank's operations desk, in force at the close of operations on the last business day of the fiscal years ended December 31, 2016 and 2015.

Foreign currency transactions net gains or losses are recorded within "Financial income" or "Financial expenses" in the accompanying consolidated statements of income.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2015 and 2014 and for the three years in the years ended December 31, 2016
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2.2. Interest accruals and adjustments of principal amounts (CER and CVS)

Interest accruals were determined using the exponential method for all lending and certain borrowing transactions in local and foreign currency, and interest accruals for loans overdue more than ninety days were discontinued.

Adjustments of principal amounts from application of the CER (Reference Stabilization Index), and CVS were accrued as established by Argentine Central Bank regulations, and interest accruals on loans overdue more than ninety days were discontinued.

2.3. Government and Corporate Securities

As of December 31, 2016 and 2015, the securities classified as "Holdings booked at fair market value", "Investment in listed corporate securities" and "Securities issued by the BCRA" with volatility published by the BCRA, have been valued at year-end market quotation.

As of December 31, 2016 and 2015, the securities classified as "Holdings booked at cost plus return" and "Securities issued by the BCRA" with no volatility published by the BCRA or with volatility but which the Entity decides to book under the first category, have been valued at their acquisition cost subject to an exponential increase based on the internal rate of return, net of contra accounts, if applicable.

2.4. Loans

The portfolio of performing loans and loans due ninety days or less has been valued in terms of the principal amounts actually lent, plus capitalized interest, net of principal amortization collected and debt balance refinancing, plus adjustments (from the application of the CER, and CVS where applicable) and accrued interest receivable and less the estimated reserve for loan losses.

Other loans to the public sector:

- i) as of December 31, 2016 and 2015, those loans were valued at cost plus return, taking as cost their book value as of December 31, 2010.
- ii) those originally granted in foreign currency have been converted into Ps. at the exchange rate of \$1.40 per US dollar, as established by Law 25561, Decree 214 and complementary rules and amendments. Since February 3, 2002, the CER has been applied to the amount of those loans and maximum rates have been established, in accordance with Decree 1579/02, if those assets were subjected to the Exchange of Provincial Public Debt.

Loans to the non-financial private sector originally granted in foreign currency have been converted into Ps. at the exchange rate of \$1.00 per US dollar, as established by Law 25561, Decree 214 and complementary rules and amendments. Since February 3, 2002, the CER and CVS have been applied to the amount of those loans and maximum rates have been established, depending on the borrower.

2.5. Other receivables for financial transactions

The individual mortgage loans of which the trustee ownership was transferred by the Bank and recorded in this caption have been valued and converted into pesos following the criterion described in points 2.2. and 2.4.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
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The rights arising from currency swap transactions have been valued at the quotation of that currency following the criterion described in point 2.1.

The financial trust participation certificates have been valued according to the equity method of accounting. Financial trust debt securities have been stated at cost plus return, index-adjusted by applying the CER to the appropriate instruments.

Financial trust debt securities have been stated at cost plus return, index-adjusted by applying the CER to the appropriate instruments.

The interest rate swap transactions carried out for the purposes of hedging assets and liabilities with fixed and floating rates have been valued in accordance with the unsettled balances of agreed upon lending and borrowing interests rates.

OTC transactions agreed upon through ROFEX that are mainly closed as hedging for the position in foreign currency have been valued in accordance with the balances pending settlement

US dollar forward transactions which are generally settled upon maturity without delivery of the underlying asset have been valued in accordance with the balances pending settlement.

Unlisted negotiable obligations have been valued at acquisition cost exponentially increased according to the internal rate of return.

The Bank holds Negotiable Obligations in its own portfolio, measured at their residual value plus interest accrued.

Securities issued by the BCRA and government securities held as collateral for OTC transactions are valued as explained in item 2.3 of this note.

Repo transactions are carried at the value originally agreed upon, plus accrued premiums.

2.6. Receivables for financial leases

Receivables for financial leases are carried at the current value of the periodic installments and the residual value previously agreed upon, calculated as per the conditions set forth in the respective lease agreements, applying the internal rate of return and net of allowances for loan losses.

2.7. Investments in Other Companies

Permanent equity investments in companies where corporate decision are not influenced, are accounted for the lower of cost and the equity method. As of December 31, 2016 and 2015 these investments were recorded at cost.

This caption mainly includes the equity investments held in: Mercado Abierto Electrónico Sociedad Anónima, ACH Sociedad Anónima, Mercado de Valores de Buenos Aires Sociedad Anónima, and SUPER-CARD S.A..

Additionally the Bank has participations as protecting partner in mutual guarantee companies and has made contributions to the companies' risk fund. These companies are: Confederar NEA S.G.R., Don Mario S.G.R., Los Grobos S.G.R. and Intergarantías S.G.R.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
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(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

2.8. Miscellaneous receivables

Miscellaneous receivables have been valued at the amounts actually transacted, plus interest accrued and net of allowances for loan losses or impairment, if applicable.

2.9. Bank Premises and Equipment and Miscellaneous Assets

These assets are recorded at cost restated in constant monetary units until February 28, 2003, following the method mentioned in the second and third paragraphs of this Note, net of accumulated depreciation calculated following the straight-line method, based on the estimated useful life of the assets. The cost of assets added before December 31, 1994 is restated in uniform currency as of that date, while subsequent transactions are valued in current purchasing power values of the year to which they correspond.

Depreciation is computed under the straight-line method over the estimated useful lives of the related assets. The estimated useful lives for bank premises and equipment are as follows:

Buildings	50 years
Furniture and fixtures	10 years
Machinery and equipment	5 years
Other	5 years

The cost of maintenance and repairs of these properties is charged to expense as incurred. The cost of significant renewals and improvements is added to the carrying amount of the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the consolidated statement of income.

The Bank records in "Miscellaneous assets – Assets acquired through foreclosures" housing units added to the Bank's assets in repayment of mortgage loans. These housing units have been valued at the lower of market value or the value of the loan, net of allowances.

The net book values of the assets taken as a whole do not exceed their economic value, except for the assets intended for sale, which do not exceed their net realizable value.

2.10. Intangible Assets, Net

Organization and system development expenses have been restated in constant monetary units up until February 28, 2003, following the method mentioned in the second and third paragraphs of this Note, and are being amortized monthly according to the straight-line method, based on their estimated useful life.

The Goodwill stemming from the purchase of 80% of Tarshop SA's capital stock in 2010 has been valued at acquisition cost, net of the accumulated amortization that had been calculated pro rata of the estimated useful life months.

Pursuant to Argentine Central Bank Communication "A" 5392, the Bank has capitalized increased direct expenses incurred in the mortgage loan origination process in its capacity as trustee, which disbursements would not have been incurred by it had it not been for the grant of the related loans. Such origination expenses are amortized in 60 monthly installments (See note 32).

2.11 Housing, life and unemployment insurance premiums in lending transactions and other transactions originated in its capacity of insurer, in accordance with the franchise granted by the privatization law

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The Bank's policy is to recognize the premium income when the corresponding loan installment accrues, except for those loans that are more than ninety days in arrears, and allocate the expenditures for claims to the net income/(loss) for the year in which they occur.

The Bank has set up an insurance claim reserve for Ps.1,181 as of December 31, 2014, which is shown in the "Provisions" caption under Liabilities.

2.12. Deposits

Deposits have been valued at their placement value, plus adjustments from application of the CER and accrued interest, where applicable. The fixed return on each transaction is accrued on an exponential basis, while the variable return on time deposits adjusted by applying the CER and included in "Investment Accounts" is accrued at the pro rata agreed upon rate of return based on the improvement in the price of the financial asset or financial asset indicator, between the time the transaction is arranged and the end of the month.

2.13. Other liabilities from financial transactions

Unsubordinated negotiable obligations have been valued at their residual value plus accrued interest.

Foreign currency-denominated obligations under swap transactions carried out as a hedge have been converted into Argentine pesos according to the criterion described in note 2.1.

Interest rate swaps for agreed-upon fixed rate have been valued in accordance with the balances pending settlement of the agreed-upon lending and borrowing interest rates.

2.14. Miscellaneous liabilities

They are valued at the amounts actually transacted, plus accrued interest as of year end.

2.15. Provisions

The Bank estimates contingencies and records them in Provisions, under Liabilities, if applicable according to the estimated likelihood of occurrence. These provisions cover various items, such as insurance risk, provisions for lawsuits, provisions for taxes, other contingencies, etc..

In addition, the Bank has created the allowance required under Communication "A" 5689 issued by the Argentine Central Bank in order to provide for the total amount of administrative and/or disciplinary sanctions and criminal penalties supported by first instance rulings, applied or pursued by the Argentine Central Bank, the Financial Information Unit, the Argentine Securities Commission and the Argentine Superintendence of Insurance.

2.16. Dismissal indemnities

The Bank does not set up any provisions to cover the risk of dismissal indemnities involving the staff. The disbursements in respect thereof are charged to the results for the period or year in which they occur.

2.17. Personnel benefits

The Bank has set up provisions for its employees' retirement plans.

2.18. Subordinated Bonds

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Subordinated negotiable obligations have been recorded at their residual value plus interests accrued.

2.19. Non-controlling interest

The breakdown of supplementary equity interests recorded in "Non-controlling interest" in the accompanying consolidated balance sheets is as follows:

	December 31,	
	2016	2015
BACS Banco de Crédito y Securitización SA.....	Ps. 43,441	Ps. 38,392
Tarshop S.A.....	114,266	47,479
Total	Ps. 157,707	Ps. 85,871

2.20. Income Tax

Pursuant to Article 28 of Law 24855, Banco Hipotecario Sociedad Anónima is subject to income tax, except for all the housing loan transactions carried out prior to October 23, 1997, date of registration of its by-laws with the Superintendence of Corporations.

The Bank charges to income and sets up a provision under Liabilities for the income tax determined on its taxable transactions in the fiscal year in which those transactions are carried out.

The Bank recognizes income tax charges and liabilities on the basis of the tax returns corresponding to each fiscal year at the statutory tax rates. For all the periods contemplated in these financial statements, the corporate tax rate was 35%. Under Argentine Banking GAAP the Bank does not recognize deferred income taxes.

2.21. Minimum notional income tax

In view of the option granted by the BCRA by means of Communication "A" 4295, as of December 31, 2015 the Bank capitalized as a minimum notional income tax credit the tax amount paid in fiscal year 2012, on the basis of projections prepared and the possibility of recovering it and raising allowances when appropriate.

2.22. Shareholders' Equity

- a. Capital stock, treasury shares, non-capitalized contributions, reserves, and capital adjustment:

The Shareholders' Equity account activity and balances prior to December 31, 1994 have been stated in the currency values prevailing at that date, following the method mentioned in this Note. The transactions carried out subsequent to that date have been recorded in currency values of the period or year to which they correspond. The balances of the Shareholders' Equity accounts as of December 31, 2015 have been restated up to February 28, 2003 as explained in the third paragraph. The adjustment derived from the restatement of the balance of "Capital Stock" was allocated to "Equity Adjustments". The issued treasury shares added due to the termination of Total Return Swap transaction are carried at nominal value.

- b. Results:

Income and expenses have been recognized against the results for the fiscal year, regardless of whether they have been collected or paid.

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The preparation of the financial statements requires that the Bank's Board of Directors perform estimates affecting assets and liabilities, the net income/ (loss) for the fiscal period or year and the determination of contingent assets and liabilities at the date thereof, such as allowances for loan losses and impairment, the recoverable value of assets and provisions. Since these estimates involve value judgments regarding the probability of occurrence of future events, the actual net income/ (loss) may differ from the estimated amount and thus generate losses or profits affecting subsequent periods or years. All legal and regulatory rules in force at the date of presentation of these financial statements have been considered.

The financial statement figures for the previous fiscal period or year, presented for comparative purposes, include certain reclassifications and adjustments that contemplate specific disclosure criteria so as to present them on a consistent basis with those of the current fiscal year.

2.23. Statements of Cash Flows

The consolidated statements of cash flows were prepared using the measurement methods prescribed by the BCRA.

For purposes of reporting cash flows, "Cash and cash equivalents" include "Cash and due from banks".

3. Adoption of International Financial Reporting Standards

By virtue of its General Resolution No. 562, the Argentine Securities Commission (CNV) has decided to enforce the provisions under the Technical Pronouncement No. 26 of the Argentine Federation of Professional Councils in Economic Sciences (FACPCE) that adopts the International Financial Reporting Standards (IFRS) for all the companies overseen by CNV as from the fiscal years beginning on January 1, 2012.

The Bank is not obligated to apply these standards insofar as the CNV has excluded all the entities for which CNV is empowered to accept the accounting criteria laid down by other regulatory and/or oversight authorities (financial institutions, insurance companies, etc.) from using the IFRS.

On February 12, 2014, BCRA issued its Communication "A" 5541 whereby it provides a roadmap to convergence between the informational and accounting regime and IFRS. Pursuant to this Communication, the entities and institutions must start to account for their financial transactions and changes in accordance with the rules issued by BCRA following the above-mentioned convergence regime as from the fiscal years beginning on January 1, 2018. This roadmap includes the following steps:

- First half of 2015

Financial institutions prepared and filed their own convergence plan and provide the name of the compliance officer appointed to such end.

Disclosure of guidelines to be observed by institutions regarding reconciliations were filed with the BCRA.

- Second half of 2015

The institutions filed with the BCRA, together with the financial statements as of the fiscal year's closing date, a reconciliation of the main asset, liability and shareholders' equity captions with the amounts that would result from applying the rules issued by the BCRA under the scope of the IFRS convergence process. This information included a special report by the independent auditor and will be used exclusively by the BCRA for supervision and regulation purposes, and qualifies as non-public. Institutions reported on the degree of progress made in the IFRS Convergence Plan.

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- Year 2016

According to the method and frequency established in due course, institutions shall continue to report to the BCRA the degree of progress made by them in the IFRS convergence process. In addition, they shall continue to disclose in their published financial statements that they are progressing in the IFRS Convergence Plan. There will be an issuance of a CONAU Circular to communicate the new Minimum Accounts Plan and Form of Financial Statements (New Informational and Accounting Regime for Quarterly / Annual Publication).

- Year 2017

As of January 1, 2017, institutions shall prepare the opening financial statements that will serve as basis for preparing their comparative financial statements. In each quarterly statement, they shall include a reconciliation of the main asset, liability and shareholders' equity captions and results with the amounts that would result from applying the rules issued by the BCRA under the scope of the IFRS convergence process. Such reconciliations shall be supported by a special report by the independent auditor. The quantitative information and the degree of progress of the IFRS Convergence Plan will be disclosed in a note to the published financial statements.

- Year 2018

As from the financial statements starting on January 1, 2018, financial institutions shall be required to record their transactions and equity changes in accordance with the rules issued by the BCRA under the IFRS convergence process. Therefore, as from the closing of the first quarter, they shall prepare and submit their published financial statements according to the above mentioned rules; the independent auditor shall issue an opinion thereon and such financial statements will be the ones used by the institutions for all legal and corporate purposes.

On March 31, 2015 the Bank's Board of Directors has approved (i) the Implementation Plan for Convergence towards the International Financial Reporting Standards dictated by the Communication "A" 5541 for Financial Entities subject to supervision of the BCRA; and (ii) the designation of the coordinators which will have the obligation to inform the Board of Directors the status and degree of progress of the project.

The plan contains the creation of a work team; coordination with the management of the related companies in which permanent investments are held, controlled companies or companies in which significant influence is exercised; design and communication of a training plan; identifying impacts on operations and the information to be submitted that requires the implementation of specific actions (adapting information systems, internal control, etc.).

Half-yearly reports must be made to the BCRA, showing the progress made in the Implementation Plan. The first due date of this presentation operates on September 30, 2015. Each half-yearly report shall include a report issued by the Internal Audit Department.

As of December 31, 2016, three filings have been made as to the progress made towards the plan as of September 30, 2015, March 31, 2016 and September 30, 2016. Each filing was approved by the Board of Directors of the entity and was accompanied by a report issued by the Internal Auditors approved by the Audit Committee.

On March 31, 2016 and September 30, 2016, the reconciliations of asset and liability captions as required by the IFRS as of December 31, 2015 and June 30, 2016, respectively, prepared according to the guidelines set forth by Communication "A" 5844, were submitted to the BCRA jointly with the Independent Auditor's special report.

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The reconciliations of balances shall be reported as of June 30 and December 31, and the filing dates will be September 30 and March 31, respectively, until the BCRA resolves to discontinue such filings. The information shall be accompanied by a special report issued by the independent auditor.

On December 12, 2016, the BCRA issued Communication “A” 6114, CONAU 1-1191 Circular, entitled Convergence of Reporting and Accounting Regime towards International Financial Reporting Standards (IFRS), whereby it established the criteria that should be taken into consideration by financial institutions in the framework of convergence towards the International Financial Reporting Standards (IFRS). As from the fiscal years starting on January 1, 2018, financial institutions shall start to record their operations, changes in assets and liabilities and prepare their financial statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted as of the date hereof by Technical Resolution No. 26 issued by the Argentine Federation of Professional Councils in Economic Sciences, as amended, and any circulars for adoption already approved and scheduled to come into force before December 31, 2018.

As concerns allowances for loan losses, the standards on “Minimum allowances for loan losses” will continue in effect, and in due time the BCRA will release a specific schedule for convergence towards the model adopted in line with international best practices.

In order to calculate the interest rate that actually applies to the assets and liabilities that require the use of an interest rate for measurement purposes, preparers should take into consideration the principles, definitions and examples included in IFRS 9; it is clarified, though, that the institutions whose systems do not enable the allocation of commissions and transaction costs to financial assets or liabilities on an individual basis are temporarily -until December 31, 2019- allowed to use an overall estimate of the calculation of the interest rate actually applied to a group of similar financial assets or liabilities over which such interest rate should apply provided that this estimate does not affect completeness in the standards concerning “Minimum requirements for managing, implementing and controlling risks associated to information technology, information systems and associated resources applicable to financial institutions”. In order to present balances at amortized costs taking into account the interest rate actually applied, adjusting entries will be booked at the financial product level, that allow preparers to maintain contractual balances also booked.

4. Restricted Assets

Certain of the Bank's assets are pledged or restricted from use under various agreements. The following assets were restricted at each balance sheet date:

	December 31,	
	2016	2015
Banco Hipotecario S.A.		
Securities issued by the BCRA as collateral for OTC transactions.....	326,789	245,444
Government securities as collateral for OTC transactions.....	-	-
Deposits in pesos as collateral for visa credit card transactions...	364,586	188,047
Securities issued by the BCRA as collateral for the custody of securities.....	-	816
Government securities as collateral for the custody of securities.	3,989	230,850
Deposits in pesos as collateral for leases.....	1,027	932
Other collaterals	810	812
	<u>Ps. 697,201</u>	<u>Ps. 666,901</u>
Tarshop S.A.		
Deposits in pesos and in U\$S as collateral for leases.....	715	626

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Certificates of participation in Financial Trusts granted as commercial pledge for a loan received.....	32,205	32,203
Time deposits pledged for tax obligations arising from Financial Trusts.....	6,531	5,383
Deposits in pesos related to Financial Trusts transactions.....	131,209	67,956
Receivables in trust to secure a syndicated loan received.....	-	-
Receivables in trust to secure an overdraft facility received.....	84,341	51,342
Loans to secure the future issuance of Financial Trust.....	175,204	84,666
Deposits in pesos as collateral for visa credit card transactions...	18,142	3,884
Government securities as collateral for visa credit card transactions.....	13,390	4,947
	<u>Ps. 460,737</u>	<u>Ps. 251,007</u>

BACS Banco de Crédito y Securitización S.A.		
Receivables in pledge loans to secure a loan received.....	26,572	54,674
Securities and pesos as collateral for OTC transactions.....	32,214	10,357
	<u>Ps. 58,786</u>	<u>Ps. 65,031</u>

BH Valores S.A.		
Mercado de Valores de Buenos Aires SA's share pledged on behalf of Chubb Argentina de Seguros SA.....	Ps. 4,000	Ps. 4,000
	<u>Ps. 1,220,724</u>	<u>Ps. 986,939</u>

5. Government and Corporate securities

Government and Corporate Securities held by the Bank consist of the following balances:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Holding booked at market fair value		
Government securities in pesos.....	Ps. 1,447,625	Ps. 1,492,885
Government securities in US\$.....	577,840	705,231
Bills issued by Provincial Governments in US\$.....	231,794	321,017
	<u>Ps. 2,257,259</u>	<u>Ps. 2,519,133</u>
Holding booked at cost plus return		
Government securities in pesos.....	-	-
Bills issued by Provincial Governments in pesos...	52,921	329,595
Government securities in US\$	807,100	-
Bills issued by Provincial Governments in US\$.....	157,064	199,341
	<u>Ps. 1,017,085</u>	<u>Ps. 528,936</u>
Investment in listed corporate securities		
Corporate securities in pesos.....	Ps. 352,854	Ps. 590,328
Corporate securities in US\$.....	-	-
	<u>Ps. 352,854</u>	<u>Ps. 590,328</u>
Securities issued by the BCRA		
Quoted bills and notes issued by the BCRA.....	Ps. 711,280	Ps. 937,617
Unquoted bills and notes issued by the BCRA.....	670,796	877,369
	<u>Ps. 1,382,076</u>	<u>Ps. 1,814,986</u>

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Allowances	Ps. (11,662)	Ps. (7,121)
Total	Ps. 4,997,612	Ps. 5,446,262

The bank recorded in their financial statements income from government and corporate securities for an amount of Ps. 2,178,541 and Ps. 1,764,289 as of December 31, 2016 and 2015, respectively.

6. Loans

Other loans to the non-financial private sector and foreign residents are comprised of the following for the periods indicated:

	December 31,	
	2016	2015
Working capital in pesos	Ps. 2,439,375	Ps. 2,939,525
Working capital in US dollars.....	973,698	311,372
Loans for the financing of manufacturers.....	189,838	59,160
Loans for the financing of Service Providers in US dollars	602,308	-
Export prefinancing	961,248	468,180
Total	Ps. 5,166,467	Ps. 3,778,237

7. Other receivables from financial transactions

The breakdown of the "Other receivables not included in the debtor classification regulations" line, under the "Other receivables for financial transactions" caption, is as follows:

	December 31,	
	2016	2015
Bonds held in the Bank's portfolio.....	Ps. 388,858	Ps. 11,866
Trust participation certificates.....	1,312,881	415,626
Debt securities.....	2,393,543	2,184,919
Other.....	2,030	420
Total	Ps. 4,097,312	Ps. 2,612,831

8. Miscellaneous receivables

Other miscellaneous receivables are comprised of the following for the periods indicated:

	December 31,	
	2016	2015
Tax prepayments and withholdings.....	Ps. 69,415	Ps. 68,393
Recoverable expenses, taxes, and advances to third parties.....	428,397	374,279
Attachments for non-restructured ON.....	11,179	9,642
Other receivables from lawsuits.....	6729	10,346
Guarantee deposit securing financial agreements.....	29,574	6,402
Guarantee deposit for credit card transactions.....	364,586	188,047
Guarantee deposit for global custody duties.....	-	231,666
Other Directors fees.....	36,229	26,061
Loans to Bank staff.....	188,312	187,880
Collections pending reporting by collecting entities.....	181,275	46,260

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Goods, services and insurance related to leasing.....	21,246	27,128
Other.....	549,817	428,548
Total	Ps. 1,886,759	Ps. 1,604,652

9. Allowance for loan losses

The activity in the allowance for loan losses for the periods presented is as follows:

	December 31,	
	2016	2015
Balance at beginning of the year.....	Ps. 451,751	Ps. 407,140
Provision charged to income	466,365	354,179
Loans charged off.....	(241,975)	(309,568)
Balance at end of the year.....	Ps. 676,141	Ps. 451,751

10. Bank Premises and Equipment and Intangible Assets

The book values of major categories of bank premises and equipment and total accumulated depreciation as of the periods indicated are as follows:

	December 31,	
	2016	2015
Land and buildings.....	Ps. 191,759	Ps. 133,740
Furniture and fixtures.....	105,279	71,506
Machinery and equipment.....	358,077	238,985
Other.....	57,012	44,270
Accumulated depreciation.....	(321,899)	(245,691)
Total	Ps. 390,228	Ps. 242,810

Intangible assets, net of accumulated amortization, as of the end of periods indicated are as follows:

	December 31,	
	2015	2014
Third parties fees, re-engineering, restructuring and capitalized software costs.....	Ps. 200,436	Ps. 156,855
Goodwill (*).....	13,363	16,792
Mortgage loan origination expenses related to Pro.Cre.Ar (see note 32).....	353,565	304,572
Total	Ps. 567,364	Ps. 478,219

(*) Goodwill is mainly related to the acquisition of Tarshop S.A., which has been allocated to the Credit card segment- Tarshop.

11. Miscellaneous assets

Miscellaneous assets consist of the following as of the end of each period:

	December 31,	
	2016	2015

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Properties held for sale.....	Ps.	29,653	Ps.	29,045
Assets leased to others.....		30,124		22,861
Stationery and office supplies.....		32,554		27,177
Advance for property purchase.....		176,551		-
Other.....		51,815		7,927
Accumulated depreciation.....		(24,629)		(21,890)
Total	Ps.	<u>296,068</u>	Ps.	<u>65,120</u>

12. Deposits

The breakdown of deposits is as follows:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Time deposits.....	Ps. 13819,415	Ps. 15,671,777
Saving deposits.....	3,611,713	3,187,068
Checking accounts.....	1,362,218	1,351,893
Other deposits.....	191,646	181,475
Total	Ps. <u>18,984,992</u>	Ps. <u>20,392,213</u>

13. Other Liabilities from Financial Transactions

The breakdown of the "Others" line, under the "Other liabilities from financial transactions" caption, is as follows:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Collections and other transactions on behalf of third parties.....	Ps. 497,792	Ps. 200,856
Credit cards consumptions payable.....	1,810,155	934,657
Retail Bank Network.....	6,382	7,166
Financial hedge contract.....	620,080	533,386
Others.....	(2,631)	24,537
Total	Ps. <u>2,931,778</u>	Ps. <u>1,700,602</u>

14. Miscellaneous Liabilities

Other miscellaneous liabilities consist of the following as of the end of each period:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Sundry creditors.....	Ps. 533,581	Ps. 549,410
Other fees and expenses payable.....	205,131	154,984
Tax withholdings and taxes payable.....	112,645	66,385
Taxes payable.....	488,581	632,533
Payroll withholdings and contributions.....	214,800	139,883
Salaries and social security charges payable.....	336,994	319,173
Other.....	230,687	257,516
Total	Ps. <u>2,122,419</u>	Ps. <u>2,119,884</u>

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15. Provisions

Provisions as of the end of each period are as follows:

	December 31,	
	2016	2015
Provision for lawsuits (a).....	Ps. 198,591	Ps. 116,560
Contingency risks.....	65,400	84,137
Tax Provision.....	3,132	11,029
Customers' Loyalty Program.....	58,124	45,467
Provision for administrative-disciplinary-criminal penalties .	600	40
Total	Ps. 325,847	Ps. 257,233

(a) Includes legal contingencies and expected legal fees.

16. Other Liabilities from Financial Transactions – Negotiable obligations

The balance of the negotiable obligations has been included in the “Other liabilities for financial transactions” caption. The residual face values of the different negotiable obligation series issued are as follows:

	Issue date	Maturity date	Annual interest rate (a)	December 31, 2015
Banco Hipotecario				
Series XII (US\$. 44,508 thousand)	08/14/13	08/14/17	3.95%	467,342
Series XXIX (US\$. 200,000 thousand)	11/30/15	11/30/20	9.75%	3,170,040
Series XXIX (US\$. 200,000 thousand) Tranch II	05/23/15	11/30/20	9.75%	2,306,133
Series XXX (Ps. 314,611)	09/04/15	03/04/17	9 months 28.25% and then Badlar +450bp	314,611
Series XXXI (US\$. 14,730 thousand)	09/04/15	09/04/18	2.0%	233,473
Series XXXII (Ps. 265,770)	11/30/15	05/30/17	3 months 27.0% and then Badlar +475bp	260,648
Series XXXIV (Ps. 264,030)	02/10/16	08/10/17	Badlar +400bp	264,030
Series XXXV (Ps. 235,970)	02/10/16	02/10/19	Badlar +499bp	235,970
Series XXXVI (Ps. 469,750)	05/18/16	11/18/17	Badlar +425bp	469,750
Series XXXVIII (Ps. 145,200)	08/18/16	02/18/18	Badlar +300bp	145,200
Series XXXIX (Ps. 343,241)	08/18/16	08/18/19	Badlar +349bp	343,241
Series XL (Ps.6,078,320)	10/12/16	01/12/20	Badlar +250bp	5,678,320
BACS Banco de Crédito y Securitización				
Series V (Ps. 150,000)	04/17/15	01/17/17	9 months 27.45% and then Badlar +450bp	50,010
Series VI (Ps. 141,666)	07/23/15	04/24/17	27.5%	94,449
Series VII (Ps. 142,602)	02/18/16	11/18/17	Badlar +475bp	142,602
Series VIII (Ps. 150,000)	05/24/16	11/24/17	Badlar +439bp	150,000
Series IX (Ps. 249,500)	07/27/16	07/27/18	Badlar +345bp	249,500
Series X (Ps. 91,000)	10/11/16	05/11/18	Badlar +375bp	91,000
Series XI (Ps. 201,000)	10/11/16	10/11/19	Badlar +400bp	201,000
Tarshop				
Series XXII (Ps. 126,667)	07/30/15	01/30/17	6 months 29.0% and then	125,779

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			Badlar+500bp	
Series XXIII (Ps. 160,000)	11/16/15	05/16/17	Badlar+600bp	158,996
Series XXVI (Ps. 156,972)	01/26/16	07/26/17	Badlar+650bp	<u>155,871</u>
Series XXVII (Ps. 147,288)	05/04/16	11/04/17	Badlar+600bp	<u>156,255</u>
Clase I (Ps. 204,033)	09/07/16	03/07/18	Badlar+448bp	<u>202,604</u>
Clase II (Ps. 67,360)	09/07/16	03/07/19	Badlar+499bp	<u>66,888</u>
Series XXII (Ps. 213,031)	11/04/16	05/04/18	Badlar+400bp	<u>211,539</u>
Series XXII (Ps. 77,818)	11/04/16	05/04/19	Badlar+420bp	<u>77,273</u>
				<u><u>16,018,680</u></u>

(a) As of December 31, 2016 Badlar rate was 19.875% and LEBACS rate was 31,00%

The contractual maturities of the negotiable obligations are as follows as of December 31, 2016:

December 31, 2017.....	Ps.	2,806,499
December 31, 2018.....		1,133,316
December 31, 2019.....		924,372
Thereafter.....		<u>11,154,493</u>
Total	Ps.	<u><u>16,018,680</u></u>

The General Shareholders' Meeting held on May 23, 2008, approved the creation of a new Global Program for issuing Negotiable Obligations, not convertible into shares, with or without collateral, for an amount of up to two billion US dollars (US\$ 2,000,000,000) or the equivalent thereof in pesos.

On March 27, 2012, the General Ordinary Shareholders' Meeting approved the extension of the Global Program for the issuance of notes referred above. In addition, the meeting resolved to delegate on the Board of Directors the broadest powers to determine the time, amount, as well as the other terms and conditions of each Series to be issued. Additionally, on April 24, 2014, the General Ordinary Shareholders' Meeting renewed such delegation of powers.

On February 11, 2015 the Bank's Board of Directors approved the increase in the Program amount for up to US Dollars seven hundred million (US\$ 700,000,000) or its equivalent in pesos.

On May 6, 2015, the Bank's Board of Directors approved the increase in the Program amount for up to US dollars eight hundred million (US\$ 800,000,000) or its equivalent in pesos.

In addition, the General Ordinary Shareholders' Meeting held on April 13, 2016, approved the extension of the Bank's Global Program for the issuance of Notes for up to US Dollars eight hundred million (US\$ 800,000,000) or its equivalent in pesos currently in force for a term of up to 5 years, or for such longer term as may be permitted by applicable laws.

The Board of Directors of Banco Hipotecario S.A., at its meeting held on September 15, 2016, approved the increase in the Program's amount for up to US dollars one billion (US\$1,000,000,000) or its equivalent in pesos.

On October 12, 2016, the Bank issued Notes in the international capital markets for an amount of Ps. 6,078,320 thousand.

The Board of Directors of Banco Hipotecario S.A., at its meeting held on November 9, 2016, approved the increase in the Program's amount for up to US dollars one and a half billion (US\$ 1,500,000,000) or its equivalent in pesos.

On December 23, 2016, the Bank partially repurchased and cancelled Series XI Notes for an amount of Ps. 400,000 thousand.

17. Subordinated Bonds

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At the Extraordinary General Shareholders' Meeting of BACS Banco de Crédito y Securitización S.A., 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.

On June 22, 2015, BACS issued negotiable obligations that are convertible into the Company's ordinary and book-entry shares for a principal amount of Ps.100,000.

The private offering of the convertible negotiable obligations was solely addressed to the Company's shareholders. IRSA Inversiones y Representaciones Sociedad Anónima subscribed all the convertible negotiable obligations.

18. Level I American Depositary Receipts Program

On March 27, 2006 the US Securities and Exchange Commission (SEC) has made effective the Level I American Depositary Receipts, "ADR" program.

This program allows foreign investors to buy the Bank's stock through the secondary market where ADRs are traded freely within the United States. The Bank of New York has been appointed as depositary institution.

19. Derivative Financial Instruments

The Bank has carried out its financial risk management through the subscription of several derivative financial instruments. Derivative instruments are recorded under the captions "Other receivable from financial transactions – Balances of forward transactions not yet settled without delivery of underlying asset" or Liabilities: "Other liabilities from financial transactions – Balances of forward transactions not yet settled without delivery of underlying asset" in the Consolidated Balance Sheet, and the related gain or loss under the captions "Financial Income – Other" or: "Financial Expenses – Other", respectively, in the Consolidated Statement of Income.

The following are the derivative financial instruments outstanding as of December 31, 2016 and 2015:

<u>Type of Contract</u>	<u>Notional amount</u>		<u>Net Book Value Asset/(Liabilities)</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Futures (1)				
Purchases	875,249	9,971,848		
Sales	(1,278,465)	(8,577,150)	(23,000)	1,205
Forwards (2)				
Sales	(2,095,393)	(692,500)	1118,407	(142,500)
Interest Rate Swaps				
- CHA IX (3)	117,552	128,501	-	-
- CHA XI (5)	102,743	119,616	-	-
- CHA XII (6)	135,261	159,212	-	-
- CHA XIII (7)	83,174	87,946	-	-
- CHA XIV (8)	89,415	95,616	-	-
Currency Swap CHA X (4)	(634,080)	(537,800)	(620,080)	(533,354)
			(524,673)	(674,649)

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1. Futures: Future currency transactions have been carried out through which the forward purchase and sale of foreign currencies (US dollar) was agreed upon. These transactions were performed as hedge for foreign currency position. Settlement is carried on a daily basis for the difference.

For these transactions, as of December 31, 2016 and 2015, the Bank has recognized gains for Ps. 102,468 and Ps. 462,180, respectively.

2. Forwards: the Bank has undertaken futures transactions on US Dollars: overall, these are settled upon maturity without delivery of the underlying asset and with the payment in Pesos of currency differences.

For these transactions, as of December 31, 2016 and 2015 the Bank has recognized losses for Ps. 11,568 and gains of Ps. 139,230 , respectively.

3. Interest rate swaps: On August 28, 2009, the Bank issued Series IX of Cédulas Hipotecarias Argentinas (CHA). For purposes of covering the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) from potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate less 245 bps and receives a fixed rate (9.1%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded losses for Ps.18,222 and Ps.12,078 as of December 31, 2016 and 2015, respectively.

4. Currency Swap: On August 28, 2009, the Bank issued Series X of Cédulas Hipotecarias Argentinas (CHA). For purposes of covering the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) from potential fluctuations in the dollar exchange rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a rate of 2% on a flow of dollars and receives a fixed rate on a flow of pesos (9.25%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded profits for Ps.19,980 and Ps.22,140 as of December 31, 2016 and 2015, respectively.

5. Interest rate swaps: On December 21, 2009, the Bank issued Series XI of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate less 291 bps and receives a fixed rate (11.33%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded losses for Ps.13,566 and Ps.10,161 as of December 31, 2016 and 2015, respectively.

6. Interest rate swaps: On July 21, 2010, the Bank issued Series XII of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate plus 10 bps and receives a fixed rate (13.25%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded losses for Ps.19,723 and Ps.13,344 as of December 31, 2016 and 2015, respectively.

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7. Interest rate swaps: On December 2, 2010, the Bank issued Series XIII of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate plus 27 bps and receives a fixed rate (9.279%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded losses for Ps.14,767 and Ps.11,184 as of December 31, 2016 and 2015, respectively.
8. Interest rate swaps: On March 18, 2011, the Bank issued Series XIV of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate less 20 bps and receives a fixed rate (9.91%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded losses for Ps.16,600 and Ps.11,569 as of December 31, 2016 and 2015, respectively.

20. Securitization of mortgage loans, consumer loans and credit card loans

The Bank created separate trusts under its US securitization program and “Cédulas Hipotecarias Argentina – program”; and a consumer trust under BACS’s Global Trust Securities Program. For each mortgage or consumer trust, the Bank transfers a portfolio of mortgages or consumer loans originated by banks and other financial institutions in trust to the relevant trustee. The trustee then issues Class A senior Bonds, Class B subordinated bonds and certificates of participation. The trust’s payment obligations in respect of these instruments are collateralized by, and recourse is limited to, the trust’s assets consisting of the portfolio of mortgage or consumer loans and any reserve fund established by the Bank for such purpose. The securitizations were recorded as sales, and accordingly, the mortgage and consumer loans conveyed to the trusts are no longer recorded as assets of the Bank.

At the date of these financial statements the following trust funds are outstanding:

	Debt Securities Class A1/AV	Debt Securities Class A2/AF	Debt Securities Class B	Certificates of Participation	Total
BHN II – Issued on 05.09.97 (*)					
Face value in Ps.	44,554	51,363	3,730	6,927	106,574
Declared Maturity Date	03.25.2001	07.25.2009	03.25.2012	05.25.2013	
BHN III – Issued on 10.29.97 (*)					
Face value in Ps.	14,896	82,090	5,060	3,374	105,420
Declared Maturity Date	05.31.2017	05.31.2017	05.31.2018	05.31.2018	
BHN IV – Issued on 03.15.00 (*)					
Face value in Ps.	36,500	119,500	24,375	14,625	195,000
Declared Maturity Date	03.31.2011	03.31.2011	01.31.2020	01.31.2020	
BACS I – Issued on 02.15.2001 (*)					
Face value in Ps.	30,000	65,000	12,164	8,690	115,854
Declared Maturity Date	05.31.2010	05.31.2010	06.30.2020	06.30.2020	
BACS III – Issued on 12.23.2005					
Face value in Ps.	77,600		1,200	1,200	80,000
Declared Maturity Date	03.20.2013		09.20.2013	08.20.2015	
BACS Funding I Issued on 11.15.2001 (*)					
Face value in Ps.	-	-	-	29,907	29,907
Declared Maturity Date				11.15.2031	

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BACS Funding II Issued on 11.23.2001 (*)					
Face value in Ps.	-	-	-	12,104	12,104
Declared Maturity Date				11.23.2031	
BHSA I Issued on 02.01.2002					
Face value in Ps.	-	-	-	43,412	43,412
Declared Maturity Date				02.01.2021	
CHA VI Issued on 04.07.2006					
Face value in Ps.	56,702	-	-	12,447	69,149
Declared Maturity Date	12.31.2016			12.31.2026	
CHA VII Issued on 09.27.2006					
Face value in Ps.	58,527	-	-	12,848	71,375
Declared Maturity Date	08.31.2017			02.28.2028	
CHA VIII Issued on 03.26.2007					
Face value in Ps.	61,088	-	-	13,409	74,497
Declared Maturity Date	08.31.2024			08.31.2028	
CHA IX Issued on 08.28.2009					
Face value in 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 Ps.	-	-	-	17,224	17,224
Face value en US\$	85,001	-	-	-	85,001
Declared Maturity Date	01.07.2027			06.07.2028	
CHA XI Issued on 12.21.2009					
Face value in 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 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 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 Ps.	119,876	-	-	6,309	126,185
Declared Maturity Date	05.10.2030			08.10.2030	

(*) Trusts subject to the pesification of foreign currency assets and liabilities at the \$1.00=US\$1 rate established by Law 25561 and Decree 214, as they were created under Argentine legislation. Certain holders of Class A debt securities have started declarative actions against the trustee pursuant to the application of the pesification measures set forth in Law 25561 and Decree 214, in order to maintain the currency of origin of said securities. In these declarative actions, the Bank acted together with BACS as third party. The trustee has duly answered to this claim, being the final resolution to this situation is still pending.

Tarshop S.A. has created several financial trusts under its securitization program (“Valores Fiduciarios Tarjeta Shopping – Global program”) destined to assure its long-term financing accessing directly to the capital market. The assets included in the trusts relate to credit card coupons and advances in cash. The table below presents the trusts issued and outstanding as of December 31, 2016:

	Debt Securities	Certificates of Participation	Total
Series LXXXII– Issued on 01.19.15			
Face value in Ps.	87,450	33,489	120,939
Estimated Maturity Date	03.07.2016	03.07.2016	
Series LXXXIII– Issued on 05.27.15			
Face value in Ps.	111,222	42,591	153,813
Estimated Maturity Date	08.05.2016	08.05.2016	
Series LXXXIV– Issued on 03.12.15			
Face value in Ps.	104,865	39,010	143,875
Estimated Maturity Date	09.05.2016	09.05.2016	

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Series LXXXV–Issued on 11.24.15			
Estimated Maturity Date	01.05.2017	01.05.2017	
Face value in Ps.	128,500	47,800	176,300
Series LXXXVI– Privately Issued on 11.15.15			
Face value in Ps.	126,050	48,167	174,217
Series LXXXVII– Privately issued on 12.04.15			
Face value in Ps.	97,590	39,490	137,080
Tarshop Privado Series I - Privately issued on 08.21.15			
Face value in Ps.	1,051,595	329,362	1,380,957
Tarshop Privado Series II - Privately issued on 12.23.15			
Face value in Ps.	85,000	26,623-	111,623
Tarshop Series 1 - Privately issued on 09.15.15			
Face value in Ps.	86,776	12,967-	99,743

In all cases, the payment of class B debt securities is subordinated to the payment of the class A securities. In addition, the reimbursement of the participation certificates shall be done once all the class A and B securities issued have been settled, to the extent that there are sufficient remaining funds in the trust fund.

On July 29, 2005, the Bank and the subsidiary BACS Banco de Crédito y Securitización SA initiated legal actions against First Trust of New York National Association, in its capacity of trustee under BACS I Mortgage Trust, demanding fulfillment of the Trust Agreement and a compensation for damages caused by the trustee's behavior.

The same default behavior by the Trustee was detected in financial trusts BHN II, BHN III, and BHN IV. In the opinion of the legal counselors representing the Bank and BACS Banco de Crédito and Securitización SA in said legal proceedings, pursuant to the regulations in force, this lawsuit should be successful, and therefore there is no potential risk to any of the banks, and it is estimated that the assets shall be recovered. Notwithstanding, in exercise of a prudent criterion, as of December 31, 2015, the entity has not recognized amounts on account of interest, adjustments and possible impairments arising from these trusts.

On December 21, 2015, notice was given to the holders of debt securities and certificates of participation in the BHN II, BHN III, BHN IV and BACS trusts that all the plaintiffs had relinquished the legal claims pending before the National First Instance Court in Commercial Matters No. 16, Clerks' Office No. 32, of the City of Buenos Aires.

Such relinquishment has allowed the trustee to distribute all the trust funds available, net of the payment of taxes and expenses, and to repay the total balance; therefore, there are no trust securities outstanding payment.

Moreover, following instructions imparted by Banco Hipotecario S.A. in its capacity as beneficiary, the trust estate, composed of mortgage loans, will be transferred to a private trust named Fideicomiso Original, and the liquidation process in respect of the BHN II, BHN III, BHN IV and BACS I trusts will commence.

BACS Banco de Crédito y Securitización S.A. (BACS) has created separate trusts which have personal loans, primary originated by cooperatives and later acquired by BACS, as assets. The mentioned trusts have been issued under the "Fideicomisos Financieros BACS – Global program" for the securitization for a face value up to Ps. 300,000. As of December 31, 2015 there are no trusts outstanding.

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As of December 31, 2016 and 2015, the Bank held in its portfolio the following securities corresponding to the abovementioned trusts:

	December 31,	
	2016	2015
Class B debt securities – BHN II	Ps. -	Ps. -
Class B debt securities – BHN III	-	-
Class B debt securities – BHN IV	-	-
Class B debt securities – BACS I	-	-
Class A debt securities – BHN IV	-	-
Class A debt securities – CHA VI to CHA XIV	97,180	94,194
Class A debt securities – BACS I	-	-
Debt securities – BACS III	13,517	14,849
Debt securities – Tarshop Series LXXV	-	-
Debt securities – Tarshop Series LXXVI	-	-
Debt securities – Tarshop Series LXXVII	-	-
Debt securities – Tarshop Series LXXVIII	-	-
Debt securities – Tarshop Series LXXIX	-	-
Debt securities – Tarshop Series LXXXII	-	1,197
Debt securities – Tarshop Series LXXXIII	-	5,075
Debt securities – Tarshop Series LXXXVI	-	33,935
Debt securities – Tarshop Series LXXXVII	7,871	30,639
Debt securities – Tarshop Series XCIV	38,316	-
Debt securities – Tarshop Series XCIV	34,620	-
Debt securities – Tarshop Series I	-	87,935
Debt securities – Tarshop Privado Series I	276,591	1,078,481
Debt securities – Tarshop Privado Series II	958,652	85,637
Debt securities – Tarshop Privado Series III	610,826	85,637
Subtotal	<u>Ps. 2,037,573</u>	<u>Ps. 1,431,942</u>

	December 31,	
	2016	2015
Certificates of participation – BHN II	Ps. -	Ps. -
Certificates of participation – BHN III	-	-
Certificates of participation – CHA VI	13,095	13,612
Certificates of participation – CHA VII	-	-
Certificates of participation – CHA VIII	-	-
Certificates of participation – CHA IX	8,782	10,422
Certificates of participation – CHA X	24,446	25,103
Certificates of participation – CHA XI	11,173	13,258
Certificates of participation – CHA XII	12,386	17,181
Certificates of participation – CHA XIII	3,132	5,188
Certificates of participation – CHA XIV	3,063	4,837
Certificates of participation – BHSA I	8,949	9,016
Certificates of participation – BACS III (a)	-	-
Certificates of Participation – Tarshop Series LXXXV	-	-
Certificates of Participation – Tarshop Series LXXXVI	-	-
Certificates of Participation – Tarshop Series LXXXVII	-	-
Certificates of Participation – Tarshop Series LXXXVIII	-	-
Certificates of Participation – Tarshop Series LXXXIX	-	-
Certificates of Participation – Tarshop Series LXXX	-	-

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Certificates of Participation – Tarshop Series LXXXI	-	-
Certificates of Participation – Tarshop Series LXXXII	-	13,451
Certificates of Participation – Tarshop Series LXXXIII	-	20,936
Certificates of Participation – Tarshop Series LXXXIV	-	18,039
Certificates of Participation – Tarshop Series LXXXV	-	25,546
Certificates of Participation – Tarshop Series LXXXVI	27,681	22,768
Certificates of Participation – Tarshop Series LXXXVII	25,357	27,476
Certificates of Participation – Tarshop Series LXXXVIII	36,843	-
Certificates of Participation – Tarshop Series LXXXIX	32,902	-
Certificates of Participation – Tarshop Series XC	35,058	-
Certificates of Participation – Tarshop Series XCI	35,034	-
Certificates of Participation – Tarshop Series XCII	49,677	-
Certificates of Participation – Tarshop Series XCIII	56,947	-
Certificates of Participation – Tarshop Series XCIV	34,662	-
Certificates of Participation – Tarshop Series XCV	35,574	-
Certificates of Participation – Tarshop Series I	(7)	6,473
Certificates of Participation – Tarshop Privado Series I	177,261	165,897
Certificates of Participation – Tarshop Privado Series II	515,666	15,420
Certificates of Participation – Tarshop Privado Series II	141,762	-
Subtotal	<u>Ps. 1,147,681</u>	<u>Ps. 414,623</u>
Total	<u>Ps. 3,185,254</u>	<u>Ps. 1,846,565</u>

(a) Net of allowances for impairment of Ps. 1,003 as of December 31, 2015 and 2014.

21. Financial Income and Financial Expenses

Financial Income

The breakdown of the "Others" line included in the "Financial income" caption is as follows:

	December 31,		
	2016	2015	2014
Premiums for repo transactions.....	Ps. 145,873	Ps. 75,352	Ps. 51,384
Premiums for forward transactions.....	90,900	322,962	363,202
Others.....	1,982	5,187	1,730
Total	<u>Ps. 238,755</u>	<u>Ps. 403,501</u>	<u>Ps. 416,316</u>

Financial Expenses

The breakdown of the "Others" line included in the "Financial expenses" caption is as follows:

	December 31,		
	2016	2015	2014
Turnover tax on financial income.....	Ps. 640,334	Ps. 457,219	Ps. 348,955
Premiums on swap and repo transactions.....	90,717	26,665	46,541
Result from interest rate swaps.....	81,198	57,903	71,124
Total	<u>Ps. 812,249</u>	<u>Ps. 541,787</u>	<u>Ps. 466,620</u>

22. Income from Services and Expenses on Services

Income from Services

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Other income from services consist of the following for each period:

	December 31,		
	2016	2015	2014
Insurance premiums and services.....	Ps. 2,001,622	Ps. 1,475,554	Ps. 906,052
Services on loans.....	419,464	627,012	458,936
Fees from deposits.....	(87,458)	79,279	77,087
Fees from debit cards.....	43,471	38,679	26,702
Fees from PROCREAR.....	253,992	196,614	62,093
Other.....	173,798	119,057	78,219
Total	Ps. 2,804,829	Ps. 2,536,195	Ps. 1,609,089

Expenses for Services

Other expenses for services consist of the following for each period:

	December 31,		
	2016	2015	2014
Insurance claims.....	Ps. 375,938	Ps. 230,692	Ps. 137,694
Services on loans.....	216,148	343,530	304,907
Turnover tax.....	119,854	106,913	58,949
Other.....	127,443	53,946	41,064
Total	Ps. 839,383	Ps. 735,081	Ps. 542,614

23. Administrative Expenses

Other fees consist of the following as of the end of each period:

	December 31,		
	2016	2015	2014
Legal, notarial, accounting and tax consulting services.....	Ps. 71,375	Ps. 20,835	Ps. 36,753
Temporary personnel.....	171,319	132,886	107,181
Consulting services.....	170,635	98,803	54,074
Other fee	105,224	-	-
Collection services.....	105,224	61,710	28,950
Other.....	75,757	122,926	66,227
Total	Ps. 661,024	Ps. 437,160	Ps. 293,185

The breakdown of the "Other operating expenses" line included in the "Administrative expenses" caption is as follows:

	December 31,		
	2016	2015	2014
Insurance.....	Ps. 15,786	Ps. 13,474	Ps. 7,162
Rent.....	159,848	109,630	86,146
Telephony, electricity, and mailing services.....	158,491	132,891	76,403
System links	33,482	22,909	12,189

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Maintenance and conservation of premises and equipment.....	92,775	91,455	59,778
Surveillance	65,467	55,489	36,963
Other.....	209,312	57,119	44,181
Total	<u>Ps. 735,161</u>	<u>Ps. 482,967</u>	<u>Ps. 322,822</u>

24. Other Miscellaneous Income and Miscellaneous Expenses

Miscellaneous Income

Other miscellaneous income is comprised of the following for each period:

	December 31,		
	2016	2015	2014
Rental income.....	Ps. 3,236	Ps. 2,742	Ps. 2,252
Result on operations with premises and equipment and miscellaneous assets	1,967	2,363	2,846
Interest on loans to bank staff.....	37,633	33,193	29,751
Results on securities given as collateral.....	34,464	56,289	42,679
Interests on pesos and dollars given as collateral....	-	-	9,968
Other.....	83,014	22,771	6,631
Total	<u>Ps. 160,314</u>	<u>Ps. 117,358</u>	<u>Ps. 94,127</u>

Miscellaneous Expenses

Other miscellaneous expenses are comprised of the following for each period:

	December 31,		
	2016	2015	2014
Turnover tax.....	Ps. 118,635	Ps. 90,808	Ps. 56,902
Other taxes.....	100,249	71,448	59,767
Loss on operations with premises and equipment and miscellaneous assets.....	-	-	-
Donations.....	48,877	36,529	25,371
Discounts on early payments.....	-	5,355	8,578
Commercial discount.....	-	-	-
Debit card discounts.....	31,695	21,989	17,422
Credit card and others discounts.....	69,858	51,541	42,933
Payment Summary proceedings in financial matters N° 1320 (*).	-	53,632	-
Rdo por ejecucion – gestión y finalización de proyectos	16,858	-	-
Other	37,732	39,139	29,487
Total	<u>Ps. 423,904</u>	<u>Ps. 370,441</u>	<u>Ps. 240,460</u>

(*)At the close of these Financial Statements, the Bank's Board of Directors granted its approval to the actions undertaken by the Executive Committee concerning the deposit of the penalties imposed on directors, former directors, managers, former managers and statutory auditors and the fact that such amounts were charged against the statement of income in the framework of the Financial Summary Proceedings No. 1320 (Note 31).

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25. Balances in Foreign Currency

The balances of assets and liabilities denominated in foreign currency (principally in US dollars and Euros) are as follows:

	US\$	Euro	Yen	Total
	(in Pesos)			
Assets:				
Cash and due from banks.....	4,685,022	20,063	9	4,705,085
Government and corporate securities.....	2,512,435	22,460	-	2,534,895
Loans.....	2,849,934	-	-	2,849,934
Other receivables from financial transactions...	1,405,050	-	-	1,405,050
Miscellaneous receivables.....	132,888	-	-	132,888
Items pending allocation.....	114	-	-	114
Total as of December 31, 2016	<u>11,585,443</u>	<u>42,523</u>	<u>9</u>	<u>11,627,975</u>
Total as of December 31, 2015	<u>7,080,110</u>	<u>23,295</u>	<u>7</u>	<u>7,103,412</u>
Liabilities:				
Deposits.....	3,405,535	-	-	3,405,535
Other liabilities from financial transactions....	7,570,435	38	-	7,570,473
Miscellaneous liabilities.....	12,239	-	-	22,542
Items pending allocation.....	383	-	-	248
Total as of December 31, 2016	<u>10,988,270</u>	<u>38</u>	<u>-</u>	<u>10,988,630</u>
Total as of December 31, 2015	<u>6,162,043</u>	<u>46</u>	<u>-</u>	<u>6,162,089</u>

26. Income Tax

Effective October 1997, as a result of conversion to a *sociedad anónima*, the Bank is subject to income tax in Argentina except on its income attributable to mortgage loan commitments made prior to that date.

As a general rule, the income tax law allows the deduction of expenses incurred to obtain or maintain the source of taxable income. For purposes of deducting from the taxable revenues those expenses incurred to obtain jointly taxable and non-taxable income, expenses should be segregated accordingly.

Furthermore, the fiscal rule gives prerogative to the direct allocation method rather than the apportionment method to determine the deductible expenses. Thus, the apportionment method should only be used when it is not possible to make direct allocation of expenses to the taxable revenue.

The Bank records the charges to income, when applicable, and a provision in its liabilities for the tax applicable to its taxable transactions in the fiscal year to which they refer.

As of December 31, 2016 and 2015, the Bank estimated income tax by applying the 35% tax rate to its taxable income. The amount determined as income tax was charged against income for the fiscal period under "Income Tax". The provision for income tax is recorded under "Miscellaneous Liabilities – Other".

27. Presumptive Minimum Income Tax

The Bank is subject to presumptive minimum income tax. Pursuant to this tax regime, the Bank is required to pay the greater of the income tax or the presumptive minimum income tax. Any excess of the presumptive minimum income tax over the income tax may be carried forward and recognized as a tax credit against future income taxes payable over a 10-year period. The presumptive minimum income tax provision is calculated on an individual entity basis at the statutory asset tax rate of 1% and is based

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upon the taxable assets of each company as of the end of the year, as defined by Argentine law. For financial entities, the taxable basis is 20% of their computable assets.

The tax credit balance held by BHSA at the closing date of these financial statements is Ps. 897. Additionally, at December 31, 2016, Tarshop S.A. recorded Ps. 96,550 of tax credit.

28. Shareholders' Equity

The following information relates to the statements of changes in the Bank's shareholders' equity.

(a) Common Stock

Prior to June 30, 1997, the Bank's capital stock consisted of assigned capital with no par value owned 100% by the Argentine government. In accordance with the by-laws approved as a result of the conversion of the Bank to a *sociedad anónima*, the Bank's capital stock was established at Ps.1,500,000 and divided into four classes of ordinary common shares.

As of December 31, 2016, the Bank's capital stock consists of:

Shareholder	Class of Shares	Number of Shares	Total % Ownership	Voting Rights
Argentine government (through FFFRI) (b) <i>Banco Nación</i> , as trustee for the Bank's <i>Programa de Propiedad Participada</i> (a)	A	665,059,107	44.34%	1 vote
Argentine government (through FFFRI)	B	57,009,279	3.80%	1 vote
Public investors (c) (d)	C	75,000,000	5.00%	1 vote
	D	702,931,614	46.86%	3 votes
		<u>1,500,000,000</u>	<u>100.0%</u>	

(a) The Bank's *Programa de Propiedad Participada* ("PPP") is the Bank's employee stock ownership plan.

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.

(b) Under the Bylaws, the affirmative vote of the holders of Class A Shares is required in order to effectuate: (i) mergers or spin-offs; (ii) an acquisition of shares (constituting a Control Acquisition or resulting in the Bank being subject to a control situation); (iii) the transfer to third parties of a substantial part of the loan portfolio of the Bank, (iv) a change in the Bank's corporate purpose; (v) the transfer of the Bank's corporate domicile outside of Argentina, and (vi) the voluntary dissolution of the Bank.

(c) For so long as Class A Shares represent more than 42% of the Bank's capital, the Class D Shares shall be entitled to three votes per share, except that holders of Class D Shares will be entitled to one vote per share in the case of a vote on: (i) a fundamental change in the Bank's corporate purpose; (ii) a change of the Bank's domicile to be outside of Argentina; (iii) dissolution prior to the expiration of the Bank's corporate existence; (iv) a merger or spin-off in which the Bank is not the surviving corporation; and (v) a total or partial recapitalization following a mandatory reduction of capital.

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- (d) By reason of 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 ordinary Class “D” shares in Banco Hipotecario Sociedad Anónima with face value \$ 1 each, which are available for the term and in the conditions prescribed by the Argentine Companies Law, in its Section 221. The General Ordinary Shareholders’ Meeting held on April 30, 2010 resolved to extend for a year, counted as from January 31, 2010, the term for realizing the treasury shares held by the Bank.

On April 30, 2010, the General Extraordinary Shareholders’ Meeting resolved to delegate upon the Board of Directors the decision to pay with the treasury shares in portfolio the Stock Appreciation Rights (StAR) coupons resulting from the debt restructuring as advisable based on the contractually agreed valuation methods and their actual market value after allowing the shareholders to exercise their preemptive rights on an equal footing.

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 Stock Appreciation Rights (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 Stock Appreciation Rights (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 were recorded as 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 a further Ps. 834 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 shares held by the Bank to a compensation program for the personnel under the terms of Section 67 of Law 26831. This decision is pending approval of CNV.

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.

The Class B shares have been set aside for sale to the Bank’s employees in the future pursuant to the PPP on terms and conditions to be established by the Argentine government. Any Class B shares not acquired by the Bank’s employees at the time the Bank implements the PPP will automatically convert into Class A shares. The Class C shares are eligible for sale only to companies engaging in housing construction or real estate activities. Any Class B shares transferred by an employee outside the PPP will automatically convert to Class D shares or Class C shares transferred to persons not engaged in construction or real estate activities will automatically convert into Class D shares.

(b) Distribution of profits

No profits may be distributed when any financial year does not produce profits.

Argentine Central Bank Communication “A” 4152 dated June 2, 2004 left without effect the suspension of the distribution of profits established by Communication “A” 3574. However, those banks that

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proceed to such distribution must be previously authorized by the Financial and Exchange Institutions Superintendency.

Through Communication “A” 4526 dated April 24, 2006, the BCRA established that when the Legal Reserve is used to absorb losses, earnings shall not be distributed until the reimbursement thereof. Should the balance prior to the absorption exceed 20% of the Capital Stock plus the Capital Adjustment, profits may be distributed once the latest value is reached.

For purposes of determining distributable balances, the net difference arising from the book value and the market quotation shall be deducted from retained earnings, in the event the Entity records government debt securities and/or debt securities issued by the BCRA not recorded at market prices, with volatility published by such entity.

Pursuant to its Communication “A” 5072, BCRA established that no dividend distribution shall be admitted in so far as: a) the amounts deposited as minimum cash requirements on average – in Pesos, foreign currency or in Government securities – were less than the requirements pertaining to the most recently closed position or the position as projected taking into account the effect of the distribution of dividends, and/or b) the amounts deposited as minimum capital requirements were less than the requirements recalculated as previously mentioned plus a 30% increase, and/or c) the Entity has received financial aid from the BCRA on grounds of illiquidity as set forth in Section 17 of BCRA’s Charter.

On January 27, 2012, the BCRA issued Communication “A” 5272 whereby it established that for the calculation of the minimum capital requirement, the minimum capital for operational risk shall be included. On the same date, Communication “A” 5273 was also issued, whereby the BCRA resolved to increase the percentage referred to in the preceding paragraph, subsection b), from 30% to 75%.

Communication “A” 5369 provided that as from January 1, 2013, for the purposes of calculating the position of minimum capitals, the capital requirement for credit risk due to securitizations must be computed over all the transactions outstanding as of the computation date.

On September 23, 2013 the Argentine Congress enacted Law N° 26,983 which amends the Income Tax Law and sets forth that dividends or earnings in money or in kind shall be levied with Income Tax at a 10% tax rate payable in a final and lump sum.

The Ordinary General Shareholders’ Meeting, held on April 13, 2011, resolved to distribute the income for the year ended on December 31, 2010 as follows: Ps. 39,063 (20%), to be applied to the legal reserve Ps. 100,000 (61.59%), to be paid out as cash dividends on ordinary shares, and the balance, after the Board’s remuneration, to be maintained as retained earnings. On September 20, 2012, the BCRA reported that there were no objections against the Bank’s distribution of cash dividends for Ps. 100,000, as requested. For such reason, on October 10, 2012 such cash funds were made available to the shareholders.

The Ordinary General Shareholders’ Meeting, held on August 23, 2013, resolved to distribute the income for the year ended on December 31, 2012 as follows: Ps. 68,721, to be applied to the legal reserve; Ps. 30,000, to be paid out as cash dividends on ordinary shares; and Ps. 244,886 to be maintained as retained earnings. This decision has been approved by BCRA.

On April 24, 2014, the Ordinary General Shareholders’ Meeting resolved to distribute the income for the year ended on December 31, 2013 as follows: Ps. 84,190, to be applied to the legal reserve; Ps. 42,000, to be paid out as cash dividends on ordinary shares; and Ps. 294,760 to be maintained as retained earnings. This decision has been approved by BCRA on December 23, 2014. At its meeting dated January 7, 2015, the Board of Directors of Banco Hipotecario S.A. resolved that these dividends should be made available to the shareholders as of January 16, 2015.

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29. Employee Benefit Plan

The Bank is obligated to make employer contributions to the National Pension Plan System determined on the basis of the total monthly payroll. These expenses are recorded in “Salaries and social security contributions” under the “Administrative expenses” caption in the accompanying consolidated statements of income.

30. Financial Instruments with Off-Balance Sheet Risk

In the normal course of its business the Bank is party to financial instruments with off-balance sheet risk in order to meet the financing needs of its customers. These instruments expose the Bank to credit risk in addition to amounts recognized in the balance sheets. These financial instruments include commitments to extend credit.

	December 31,	
	2016	2015
Commitments to extend credit		
Mortgage loans and other loans (a).....	Ps. 126,962	Ps. 231,547
Credit card loans (b).....	9,552,596	18,836,561
Clearing items in process (c).....	521,662	167,336
Other guarantees (d).....	124,909	407,499

- a) Commitments to extend credit are agreements to lend to a customer at a future date, subject to such customers meeting of pre-defined contractual milestones. Typically, the Bank will commit to extend financing for construction project lending on the basis of the certified progress of the work under construction. Most arrangements require the borrower to pledge the land or buildings under construction as collateral. In the opinion of management, the Bank’s outstanding commitments do not represent unusual credit risk. The Bank’s exposure to credit loss in the event of nonperformance by the other party is represented by the contractual notional amount of those commitments.
- b) The Bank has a unilateral and irrevocable right to reduce or change the credit card limit, thus it considered there is no off-balance sheet risk. In the opinion of management, the Bank’s outstanding commitments do not represent unusual credit risk. The Bank’s exposure to credit loss in the event of nonperformance by the other party is represented by the contractual notional amount of those commitments.
- c) The Bank accounts for items drawn on other banks in memorandum accounts until such time as the related item clears or is accepted. In the opinion of management, the Bank’s risk of loss on these clearing transactions is not significant as the transactions primarily relate to collections on behalf of third parties.
- d) Mainly includes the amounts given as collateral for transactions held by customers.

31. Commencement of summary proceedings

I – Pending Summary Proceedings:

1. 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; Mario Blejer; 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.

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Gustavo D. Efkhonian 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 BCRA 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.

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. The estimated and provisioned as of December 31, 2015 amounts to Ps. 20.

2. On December 29, 2014, the Bank was notified of the Resolution passed by the Superintendent of Financial and Foreign Exchange Institutions No. 824 dated December 1, 2014 ordering the start of Summary Proceedings No. 6086 on Foreign Exchange Matters (File 101.534/11) against Banco Hipotecario S.A. and a former Manager (Mr. Gabriel Cambiasso) and five assistants (Claudio H. Martin; Daniel J. Sagray; Rubén E. Perón; Marcelo D. Buzetti and Pablo E. Pizarro) at the Cordoba Branch, in the terms of Section 8 of the Foreign Exchange Criminal Regime Law (as signed into law pursuant to Decree No. 480/95). In the above-mentioned summary proceedings, an investigation is made in connection with excesses in the limits for selling foreign currency to two entities in the City of Cordoba (for a combined amount of US\$ 701,270), which allegedly violate the provisions of Communication "A" 5085, paragraph 4.2.1.

On July 3, 2015 the writ containing the defenses and arguments was filed with the Central Bank and the relevant evidence was offered.

In the legal counsel's opinion, at the current stage of the proceedings there are legal and factual arguments that generate reasonable expectations that the physical persons named defendants will be acquitted. For such reason, no allowances have been created in this regard.

3. On August 11, 2015, we were notified of Resolution No. 76/15 adopted by the chairman of the Unidad de Información Financiera, which initiated a summary proceeding (sumario) against us, our Board of Directors (Eduardo Sergio Elsztain, Mario Blejer, Diego Luis Bossio, Mariana González, Edgardo Luis José Fornero, Ada Mercedes Maza, Mauricio Elías Wior, Saúl Zang, Ernesto Manuel Viñes, Gabriel Adolfo Gregorio Reznik, Jacobo Julio Dreizzen, Pablo Daniel Vergara del Carril and Carlos Bernardo Pisula) and our compliance officer for an alleged violation to section 21 a) of Law No.25,246 and to Resolution No.121/11. The UIF initiated the proceeding after an audit by the Central Bank in 2013 detected certain weaknesses in our internal anti-money laundering controls. As of the date of this offering memorandum, we have not established any provisions in connection with this proceeding. According to that resolution, the Bank and its directors would have incurred - "prima facie" - in certain defaults related to the way customers are identified, monitoring parameters, the definition of the risk matrix and the updating procedures of background and profiles of customer, among others.

On September 23, 2015, the Bank raised depositions and defenses with the FIU 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.

Pursuant to a resolution communicated to the defendants in the summary proceedings, on August 2, 2016 they were advised that UIF would be sending an official letter to the Argentine Central Bank for it to report on the plan of risk adjustment and mitigation submitted in due time by Banco Hipotecario and send all the information associated to the inspection that gave rise to these summary proceedings.

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Based on the FIU's background on similar cases, the Bank is likely to be imposed an administrative fine. Therefore, it was deemed reasonable to create an allowance for this contingency amounting to Ps. 20 thousand, which was booked on October 22, 2015.

4. On February 15, 2016, BHSA was notified of Resolution No. 1014 handed down by the Superintendent of Financial and Foreign Exchange Institutions in order to commence summary proceedings in the terms of Section 41 of the Law of Financial Institutions (Summary Proceedings' File No. 1486) against Banco Hipotecario S.A. and its chairman Mr. Eduardo S. Elsztain on grounds of an alleged breach of the rules under Communication "A" 4490 consisting in failure to report - within the term established by the rules and regulations governing the matter- the appointment of new directors resolved by the General Shareholders' Meetings held on March 27 and on April 24, 2013 and in a delay in filing the documentation associated to those directors. It is worth underscoring that in all cases they were regular and alternate directors appointed by the Argentine Government.

On February 29, 2016, BHSA filed its defenses and produced documentary evidence, all of which is being evaluated by 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. 560 thousand, which was booked as of the closing of these financial statements.

5. 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 alleged breach of the rules contained in Communication "A" 5318 and 5322, as supplemented, consisting in 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 November 18, 2016, the relevant defenses and arguments were filed, including the assertion that the alleged breach is not punishable based on the retroactive application of the most favorable criminal law, and the relevant evidence was offered.

Given the current status of the proceedings, and since there are legal and factual arguments that generate reasonable expectations that the physical persons named defendants and Banco Hipotecario S.A. will be acquitted, no allowances have been created.

6. Banco de Crédito y Securitización S.A. has been notified of Resolution No. 401 dated September 7, 2012 handed down by the BCRA's Superintendent of Financial and Exchange Institutions, ordering to start summary proceedings against this Bank and its Chairman, Mr. Eduardo S. Elsztain, due to the late filing of documentation related to the appointment of the Bank's authorities. On October 9, 2012, the defenses and arguments of the Bank's rights were filed. Subsequently, the Bank was notified of Resolution No. 729 dated October 23, 2013 which imposed on the Bank and its president Punishment of Call of Care by Article 41 paragraph 1 of the Law of Financial Institutions.

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Through such resolution determined fines of Ps. 320 and Ps. 393 to the bank and its directors (Eduardo S. Elsztain and Ernesto M. Viñes), respectively. Such amounts were charged as a loss as of December 31, 2015.

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).

7. On November 25, 2014, Tarshop S.A. was notified by the Financial Information Unit that summary proceedings had been filed, identified under Resolution No. 234/14, for potential formal violations derived from the alleged non-compliance with Section 21, paragraph a) of Law 25,246 and UIF Resolutions No. 27/11 and 2/12. Summonses were sent to the Company (Tarshop S.A.), its Compliance Officer (Mauricio Elías Wior) and the Directors then in office (Messrs. Eduardo Sergio Elsztain, Saúl Zang, Marcelo Gustavo Cufre and Fernando Sergio Rubín) for them to file their defenses. In the legal counsel’s opinion, at the current stage of the proceedings and based on the precedents existing at the UIF in similar cases, it is likely that a penalty be imposed under the scope of the administrative proceedings. For such reason, allowances for Ps. 360 have been recorded in this regard.

II – Summary Proceedings pending Court Decision

1. On October 31, 2014, BHSA 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 one hand, with the violation of the rules governing financial aid to the Non-Financial Public Sector, with excess over the limits of fractioned exposure to credit risk from the non-financial public sector, with excess in the allocation of assets to guarantee, with failure to satisfy minimum capital requirements and with 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 to 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 BHSA’s directors (Eduardo S. Elsztain; Jacobo J. Dreizen; 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. Efkhian 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 BCRA 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 BCRA for collection of the fines.

Upon being notified of the resolution handed down on June 30 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

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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 computed as losses for the previous fiscal year and Ps. 4,040 were computed as an allowance in fiscal year 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.

2. 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. The relevant defenses and arguments have been filed and evidence has been offered in support of all the defendants subject to the summary proceedings. Due to its related subject matter, the record of this case was joined with Summary Proceedings No. 5529 on Foreign Exchange Matters (File 101,327/10). Therefore, its procedural status is described below.

On October 8, 2013, the Bank was notified of Resolution No. 720 handed down by the Superintendent of Financial and Foreign Exchange Institutions, ordering to commence summary proceedings against the Bank and its Organization and Procedures Manager, Mr. Christian Giummarra, and the former Systems Manager, Ms. Aixa Manelli (Summary Proceedings No. 5529 on Foreign Exchange Matters) in accordance with Section 8 of the Criminal Foreign Exchange Regime Law (Ley de Régimen Penal Cambiario) –as signed into law by Decree 480/95- 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. The relevant defenses and arguments were filed and evidence was offered in support of all the defendants subject to the summary proceedings. The BCRA opened the discovery stage, and evidence was produced in due time. Once the discovery stage came to a conclusion, the attorneys submitted their closing arguments. By mid-September, the BCRA sent the summary proceedings (in which the two causes of action were joined) to the courts with jurisdiction over criminal economic matters for the entry of judgment. The intervening court is Federal Court No. 2 with Jurisdiction over Criminal Economic Matters (in charge of Dr. Pablo Yadarola) – Clerk's Office No. 3 (in charge of Dr. Fernando Stockfisz). At this stage in these proceedings, the court ordered the production of further evidence to hand down a better decision. Before this court, a brief describing the system implemented by the Argentine Central Bank to communicate prohibitions against trading foreign exchange was filed.

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The court summoned the defendants to the hearing set forth in Section 41 of the Criminal Code to be held on February 27, 2017.

In the legal counsel's opinion, at the current status of the proceedings, there are legal and factual arguments that generate reasonable expectations that the physical persons named defendants and Banco Hipotecario S.A. will be acquitted and that therefore, there are low chances that the Bank will be subject to the economic sanctions set forth by the Criminal Foreign Exchange Regime Law (*Ley de Régimen Penal Cambiario*). For such reason, no allowances have been created in this regard.

3. On August 26, 2014, the Bank was notified of the Resolution passed by the Superintendent of Financial and Foreign Exchange Institutions No. 416 dated August 7, 2014 ordering the start of Summary Proceedings No. 5843 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). In the above-mentioned summary proceedings, Banco Hipotecario, its directors (Messrs. Eduardo S. Elsztain; Jacobo J. Dreizzen; Edgardo L. Fornero; Carlos B. Písula; Gabriel G. Reznik; Pablo D. Vergara del Carril; Ernesto M. Viñes; Saul Zang; and Mauricio E. Wior) and former directors (Ms. Clarisa D. Lifsic de Estol and Mr. Federico L. Bensadón), and two former managers (Messrs. Gabriel G. Saidón and Enrique L. Benitez), are charged with failure to comply with the rules disclosed by Communication "A" 3471 (paragraphs 2 and 3) and by Communication "A" 4805 (Paragraph 2.2.) due to certain transfers of currency made abroad between August and October 2008 to guarantee the "CER Swap Linked to PG08 and External Debt" swap transaction for a total of US\$ 46 thousand, without the authorization of the Argentine Central Bank. BHSA has been allowed to review the proceedings (case file No. 100.308/10) which are being handled by the Argentine Central Bank's Department of Foreign Exchange Contentious Matters. The relevant defenses and arguments were filed and evidence was offered in support of all the defendants subject to the summary proceedings. The BCRA opened the discovery stage on March 16, 2015. Evidence was produced and the counsels for the defense's allegations were raised in due time. Upon conclusion of the administrative stage of the proceedings, the case file was sent to the Courts with Jurisdiction over Criminal Economic Matters.

After the resolution by the court of the jurisdictional issues that had been raised on November 18, 2015, in November 2016, notice was taken of the fact that the case is now being heard by Federal Court No. 3 with Jurisdiction over Criminal Economic Matters presided by Judge Rafael E. Caputo, Clerk's Office No. 5, which is to rule upon these summary proceedings.

In the legal counsel's opinion, at the current stage of the proceedings, there are legal and factual arguments that generate reasonable expectations that the physical persons named defendants and Banco Hipotecario S.A. will be acquitted and that therefore, there are low chances that the Bank will be subject to the economic sanctions set forth by the Criminal Foreign Exchange Regime Law (*Ley de Régimen Penal Cambiario*). For such reason, no allowances have been created in this regard.

III – Summary Proceedings in which a Court Decision has been Rendered (concluded)

1. On May 4, 2012 the Bank was notified of Resolution No. 186, dated April 25, 2012 issued by the Superintendent of Financial and Foreign Exchange Institutions whereby Summary Proceedings No. 4976 on Foreign Exchange Matters were commenced against the Bank, its directors (Messrs. Eduardo S. Elsztain; Gabriel G. Reznik; Pablo D. Vergara del Carril; Ernesto M. Viñes; Saul Zang; Carlos B. Písula; Edgardo L. Fornero; Jacobo J. Dreizzen); former directors (Ms. Clarisa D. Lifsic de Estol; Messrs. Julio A. Macchi; Federico L. Bensadón; and Jorge M. Grouman) and the former Finance

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Manager Gabriel G. Saidón, under section 8 of the Foreign Exchange Criminal Regime Law (as signed into law by Decree No. 480/95).

In such proceedings, charges were pressed for alleged violations of the provisions of Communications “A” 3640, 3645, 4347 and supplementary rules, due to the acquisition of good delivery silver bars during the 2003-2006 period with funds arising from its General Exchange Position.

The defenses to which the Bank is entitled were raised in due time. Within the period granted to such end, the Bank and the other defendants produced the evidence previously offered. As soon as that stage in the procedure came to a conclusion, the counsel for the defense presented their closing arguments and in August 2014, the Argentine Central Bank sent the case file to the competent court (therefore, at present the case is being heard by the Court with Jurisdiction over Criminal Economic Matters No. 7 presided by Judge Juan Galvan Greenway, Clerk’s Office No. 13, presided by Ms. Mariana Zavala Duffau).

On April 29, 2016, final judgment was passed, whereby: I – The criminal charges filed against BANCO HIPOTECARIO S.A., Clarisa Diana LIFSIC, Eduardo Sergio Elsztain, Gabriel Adolfo Gregorio REZNIK, Pablo Daniel VERGARA DEL CARRIL, Ernesto Manuel VIÑES, Saul ZANG, Julio Augusto MACCHI, Carlos Bernardo PISULA, Edgardo Luis José FORNERO, Federico León BENSADON and Gabriel Gustavo SAIDON in connection with the transactions recorded under slips No. 21683, 21749, 22065, 22136, WERE DECLARED PARTIALLY STATUTE-BARRED and the above mentioned persons WERE PARTIALLY ACQUITTED as concerns the above mentioned deeds (Section 19 of Law 19,359 and Section 434 and 443, subsection 3, and 454 of the Code of Criminal Procedure). II – The criminal charges filed against Jacobo Julio DREIZZEN and Jorge Miguel GROUMAN, in connection with the transactions recorded under slips No. 31034, 31042, 37270, 37973, 38476, 38511, 38651, 38693, 40005, 40066, 40190, 40304, 40687 and 40688 WERE DECLARED PARTIALLY STATUTE-BARRED and the above mentioned persons WERE PARTIALLY ACQUITTED as concerns the above mentioned deeds (Section 19 of Law 19,359 and Section 434 and 443, subsection 3, and 454 of the Code of Criminal Procedure). III – BANCO HIPOTECARIO S.A., Clarisa Diana LIFSIC, Eduardo Sergio Elsztain, Gabriel Adolfo Gregorio REZNIK, Pablo Daniel VERGARA DEL CARRIL, Ernesto Manuel VIÑES, Saúl ZANG, Edgardo Luis José FORNERO, Federico León BENSADON, Jacobo Julio DREIZZEN, Jorge Miguel GROUMAN, Gabriel Gustavo SAIDON, Julio Augusto MACCHI and Carlos Bernardo PISULA WERE FULLY RELEASED OF LIABILITY for the other charges pressed against them in this action in connection with violation of the Criminal Foreign Exchange Regime Law under these summary proceedings filed by the Argentine Central Bank regarding the transactions recorded under slips Nos. 40729 and 41288 (according to the charges pressed in each case) as the alleged conducts did not match with any of the offenses set forth by law. IV – NO COURT COSTS WERE AWARDED (pursuant to Sections 143 and 144 Code of Criminal Procedure).

As no appeal was lodged against it, the judgment became final and conclusive.

2. On October 7, 2014, BHSA was notified of Resolution No. 513 dated August 16, 2014 handed down by the Superintendent of Financial and Foreign Exchange Institutions in the summary proceedings in financial matters No. 1365 (on grounds of alleged failure to comply with the minimum requirements in terms of internal controls under Communication “A” 2525) whereby Banco Hipotecario S.A. was imposed a fine for \$112,000 and its directors (Messrs. Pablo D. Vergara del Carril; Carlos B. Pisula, Eduardo S. Elsztain, Jacobo J. Dreizzen, Gabriel G. Reznik; Edgardo L. Fornero; Ernesto M. Viñes; and Saul Zang) and former directors (Ms. Clarisa D. Lifsic de Estol and Messrs. Jorge L. March; and Federico L. Bensadón) were fined for different amounts.

As required by Section 42 of the Law of Financial Institutions, the fines were paid and the relevant appeal was lodged with the National Appellate Court with Federal Jurisdiction over Contentious and Administrative Matters against the above-mentioned resolution. By mid December 2014, the

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proceedings were sent by the BCRA to the competent court, and the case was brought before Panel IV under File No. 71,379/2014. The fine for Ps. 112 thousand was recorded in due time under allowances and paid by the Bank.

Under judgment dated June 21, 2016, the National Appellate Court with Federal Jurisdiction over Contentious and Administrative Matters – Panel IV dismissed the appeals lodged by Banco Hipotecario S.A. and the defendant directors, and awarded court costs against the losing appellants. The judgment became final and conclusive.

3. On December 29, 2014, the Bank was notified of Resolution No. 824 dated December 1, 2014 handed down by the Superintendent of Financial and Foreign Exchange Institutions whereby Summary Proceedings No. 6086 (File 101,534/11) were commenced against Banco Hipotecario S.A., its former Manager (Mr. Gabriel Cambiasso) and five assistants (Claudio H. Martin; Daniel J. Sagray; Rubén E. Perón; Marcelo D. Buzetti y Pablo E. Pizarro) in the Córdoba Branch, under section 8 of the Foreign Exchange Criminal Regime Law (as signed into law by Decree No. 480/95). In such proceedings, charges were pressed for exceeding the limits imposed for selling foreign currency to two entities in the City of Córdoba (which excesses amounted to Dollars 701 thousand in aggregate) allegedly breaching the provisions of Communication “A” 5085, section 4.2.1.

On July 3, 2015, a brief was filed with the Central Bank containing the relevant defenses and arguments and the relevant evidence was offered. Following the production of evidence, the closing argument was filed and a motion was made for applying the principles of the most favorable criminal law.

Through Resolution No. 703, dated December 28, 2016 handed down by the Superintendent of Financial and Foreign Exchange Institutions, it was resolved to dismiss the charges against Banco Hipotecario S.A. and Messrs. Gabriel Cambiasso, Claudio Hugo Martin, Daniel Javier Sagray, Rubén Ernesto Perón, Marcelo Damián Buzetti and Pablo Edgardo Pizarro; and to close Summary Proceedings No. 6086, pending in File No. 101,534/11.

32. 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 State, 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 of the placement of the Trust Bonds (Valores Representativos de Deuda or VRDs) and cash contributions by the Argentine State 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.

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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 him;
- 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;
- insure 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.

In compliance with Communication "A" 5392, the Bank has capitalized mortgage loan origination expenses under this program (see note 2.10.).

33. Capital Market Law

On December 27, 2012, the Capital Market Law No. 26,831 was promulgated, considering a comprehensive amendment to the public offering regime set forth by Law No. 17,811.

Insofar as concerns the matters related to the Company's business, this law broadens the regulatory powers of the Argentine Government in connection with the public offering of securities, through the Argentine Securities Commission (CNV), and concentrates in this agency the powers of authorization, supervision and oversight, disciplinary authority and regulation of all capital market players; furthermore, it establishes that intermediary agents willing to deal in a securities market are no longer required to be members thereof, thus allowing the entry of other participants, and delegates to the CNV the power to authorize, register and regulate the various categories of agents.

On August 1, 2013, Decree 1023/2013, partially regulating the Capital Markets Law, and on September 9, 2013, General Resolution No. 622 of the CNV, approving the related regulations, were published in the Official Gazette.

These regulations implement a register of agents that participate in the capital market. To take part in each of the activities regulated by this resolution, agents had to be entered in that register in such capacity by March 1, 2014.

For those agents who have applied for registration with the final registry before March 1, 2014 to comply with all the requirements, on February 7, 2014, the Argentine Securities Commission (CNV) extended the term until September 30, 2014. On June 23, 2014 we were notified by Mercado Abierto Electrónico S.A. that CNV mandated that the Agents registered with MAE S.A. who have proceedings underway before CNV for registration as Agent in any of the categories authorized by currently applicable rules and regulations may continue to do business normally up and until they start operating in the new Agent category as per the CNV rules (N.T.2013)

In turn, pursuant to CNV Resolution No. 17,392 dated June 26, 2014, the Bank was registered with the Registry of Financial Trustees prescribed by Sections 6 and 7 of Chapter IV, Title V of the Rules, under

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No. 57. And, on September 19, 2014, pursuant to CNV Resolution No. 2122, the Bank has been registered as Settlement and Clearing Agent and Comprehensive Trading Agent No. 40.

Pursuant to the provisions of Section 45 of Law 26,831 and paragraph a), Section 20, Article VI, Chapter II, Title VII, and subsection j) of Section 7, Article IV, Chapter IV, Title V of Resolution No.622 of the CNV, it is made known 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 capital was duly paid in as of fiscal year-end and the liquid balancing account is identified –through the Argentine Bond in Pesos at private BADLAR plus 300 bp. due in October 2017 (AO 17) – Government Bond carried at fair market value - See Exhibit “A” to these Financial Statements, as per the following detail:

Date	Amount Ps. As per CNV Matrix	Government Security	Kind CV	Amount	Listing	Valuation
12/30/2016	10,500,000.00	AO17	5467	12,000,000	1.0550	12,660,000

On October 22, 2014, the Board of Directors of Mercado de Valores de Buenos Aires S.A. approved the registration of Banco Hipotecario S.A. in Mercado de Valores de Buenos Aires S.A.'s Registry of Agents as Settlement and Clearing Agent and Trading Agent – Comprehensive (ALyC and AN as per the Spanish acronyms). On December 23, 2014, BHSA was authorized to operate under the provisions of Merval Communication No. 15594.

34. Resolutions issued by the Argentine Central Bank

Credit Line for Productive Investments

Under Communication “A” 5874 dated December 31, 2015, the Argentine Central Bank revised the name of the credit line in effect since 2012 and started to publish the “Credit line for production and financial inclusion purposes”.

This line was effective during the first half of 2016 with the financial institutions subject to the provisions of this circular being required to record a lending balance under this credit line amounting to at least 14% of the deposits from the non-financial private sector in pesos, calculated taking into account the monthly average daily balances of November 2015, and all of the lending balances disbursed may be recorded under the “Credit line for production investments” provided they are admitted by this Line.

At least 75% of the quota was required to be granted to SMEs. In calculating the quota, the average daily balances of outstanding loans during the first half of 2016 are considered. The highest rate applicable under this line should be a fixed nominal rate of 22% per annum for the first 36 months, except for the purchase of portfolio and mortgage loans and loans for the acquisition of rights over trusts for the construction of real property to individuals, which will be a mixed interest rate. For clients who do not qualify as SMEs, the rate will be freely agreed upon.

Finally, through Communication “A” 5975 dated May 17, 2016, the Argentine Central Bank established the 2016 second quota under the “Financing line for production and financial inclusion”, whereby a lending balance equal to at least 15.5% of the non-financial private sector deposits in pesos, calculated taking into account the monthly average daily balances of May 2016, must be recorded under this line.

At the closing of these financial statements BHSA had recorded an average of Ps. 1,613,460 thousand as principal and interest under Banco Hipotecario S.A.'s assets in connection with this credit line.

Supplementary services to the financial business

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Pursuant to Communication “A” 5700, the Argentine Central Bank included changes in the rules on “Supplementary services to the financial business and permitted activities”, “Consolidated supervision” and “Minimum capitals of financial institutions”. As concerns the scope of the supplementary services, financial institutions are allowed to hold interests in the stock capital of companies engaged in the development of two of the subject activities to the extent that, in the opinion of the SEFyC, both activities are economically related to each other and there are no legal inconsistencies that would prevent them from being developed jointly.

The subject activities include the issuance of credit, debit and similar cards. This notwithstanding, provided that 25% of the total financing amount as of the closing date of each month is not exceeded, loans not subject to the credit card law may be extended to financial services users, in which cases the provisions on “Interest rates applicable to lending transactions” shall be complied with.

On the other hand, with respect to the calculation of the regulatory capital (responsabilidad patrimonial computable), a schedule has been established in order to compute ownership interests in companies whose corporate purpose consists in providing financial assistance in the form of leases and document discounts, temporary acquisition of ownership interests in companies, issuance of credit cards, cash withdrawal cards and similar, to name but a few, as items allowed to be detracted from Tier 1 ordinary capital.

Date	Deduction Percentage
Until May 2015	50%
Starting June 2015	25%
Starting June 2016	50%
Starting June 2017	75%
Starting June 2018	100%

Minimum capital requirements in Financial Institutions – Adaptation to the standards laid down by the Basel Committee on Banking Supervision

Pursuant to Communication “A” 5831, the Argentine Central Bank modified its rules concerning “Minimum capital requirements in Financial Institutions” and adapted several paragraphs to reflect the standards laid down by the Basel Committee on Banking Supervision.

The adaptation spans the computation of monthly stand-alone and consolidated bases, limits on maximum exposure to a single debtor, margin calls, tranche coverage, accounting treatment to be afforded to credit risk hedges, derivatives, etc. In addition, it also lays down the guidelines to manage financial institution risks.

Besides, it adds a schedule to be observed in order to detract investments in instruments computable as regulatory capital in companies that render services ancillary to financial services which are not under consolidated supervision and insurance companies

Date	Percentage to be deducted
Starting December 2015 to December 2016	60%
Starting January 2017	70%
Starting January 2018	100%

35. BHN Inversión S.A.’s dividend distribution

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On March 9, 2016, the Ordinary Shareholders' Meeting of BHN Sociedad de Inversión S.A. approved the payment of dividends in cash and/or government securities for Ps. 650,000 thousand and empowered the Board of Directors to make the relevant distribution as and when they deem it convenient during fiscal year 2016.

On March 30, 2016, BHN Inversión S.A. made the first payment of dividends to Banco Hipotecario S.A. in government securities for Ps. 330,000 thousand and on November 17, 2016, it made the second payment of dividends in government securities for Ps. 320,000 thousand.

At the Board Meeting of BHN Sociedad de Inversión dated November 29, 2016, it was unanimously resolved that, based on the review of the special Financial Statements as of September 30, 2016, as approved by the Board of Directors on November 15, 2016, interim dividends would be paid for Ps. 150,000 thousand against the net income for the current fiscal year. On December 7, 2016, these interim dividends were paid in government securities..

36. BACS Banco de Crédito y Securitización S.A. - Representations before the Central Bank to perform the activities planned for a commercial bank of first grade

On October 20, 2015 the Extraordinary General Shareholders' unanimously approved to:

- Delegate in the Board of Directors the broadest powers to take all steps, events and presentations necessary for the purposes of processing the license to operate as a commercial bank of first grade to the Central Bank and also prepare, approve, manage and execute all documentation -whether public or private instrument- that is required by the institution for the purpose of the authorization, and
- Authorize the Board of Directors to delegate the powers mentioned in the preceding point in one or more of its members or one or more of the managers of the company

37. Supplementary services to the financial business

Pursuant to Communication "A" 5700, the Argentine Central Bank included changes in the rules on "Supplementary services to the financial business and permitted activities", "Consolidated supervision" and "Minimum capitals of financial institutions".

As concerns the scope of the supplementary services, it is allowed to hold interests in the stock capital of companies engaged in the development of two of the subject activities to the extent that, in the opinion of the SEFYC, both activities are economically related to each other and there are no legal inconsistencies that would prevent them from being developed jointly.

The subject activities include the issuance of credit, debit and similar cards. This notwithstanding, provided that 25% of the total financing amount as of the closing date of each month is not exceeded, loans not subject to the credit card law may be extended to financial services users, in which cases the provisions on "Interest rates applicable to lending transactions" shall be complied with.

On the other hand, changes are introduced in the calculation of the regulatory capital (responsabilidad patrimonial computable) to reflect the impact of these amendments.

As a result of such Communication, on March 16, 2015, Tarshop SA's General Extraordinary Shareholders' Meeting approved an amendment to its corporate purpose. According to such amendment, the company may grant and market consumer loans and consumer credits and financing for users of financial services pursuant to the Argentine Central Bank's rules and regulations, handle the collection of utility bills, credits and similar items, render payroll and supplier payment and revenue collection services. As of the date of these interim Financial Statements, the Bank is awaiting the BCRA's authorization to implement such amendment.

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In such regard, on June 3, 2016, the Argentine Central Bank awarded the Company a Provisional Authorization Code in the Register of Other Non-Financial Credit Providers, and thus allowed it to start granting consumer loans, in line with the amendment to the corporate purpose recorded with the General Superintendency of Corporations on January 8, 2016 under number 437, book 77 of Corporations, and authorized by the Argentine Securities Commission under Resolution No. 17,930 dated December 21, 2015.

38. BACS – PROCEEDINGS WITH THE BCRA FOR THE ENTITY TO BE ALLOWED TO DO BUSINESS AS A FIRST-TIER COMMERCIAL BANK

At the General Extraordinary Shareholders' Meeting of BACS Banco de Crédito y Securitización S.A. held on October 20, 2015, the following actions were unanimously approved by the shareholders:

- a) delegating broadest powers to the Board of Directors in order for it to conduct all such proceedings and acts and make all such filings with the Argentine Central Bank as necessary to secure the authorization to act as a first-tier commercial bank, as well as to prepare, approve, secure and execute all such documentation – whether as public or private instruments – as required by the Argentine Central Bank for the purposes of said authorization; and
- b) empowering the Board to sub-delegate the abovementioned powers to one or several of its members or managers of the Bank.

39. PURCHASE OF EDIFICIO DEL PLATA

On April 20, 2016, Banco Hipotecario S.A. 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). The equivalent amount in Pesos was determined at the selling exchange rate as of the close of business of the preceding business day quoted by Banco de la Nación Argentina. The relevant fee payable to Banco de la Ciudad plus VAT must be added to the price mentioned above.

Pursuant to the provisions of Section 3, Decree 208/16, on April 29, 2016, fifteen percent of the price (15%) was paid. The balance is repayable within three hundred and sixty-five days (365) at the time of execution of the relevant notarial deed and delivery of possession.

40. ACQUISITION OF INTEREST IN “COMPARAENCASA.COM” BY BHN INVERSION

On December 19, 2016, the Board of Directors of BHN Sociedad de Inversión S.A. approved the acquisition of a 12.5% interest in Comparaencasa Ltd., controlling company of Comparaencasa S.A., which operates under the name of “comparaencasa.com” by making an investment of U.S. Dollars 1,000,000. The transaction includes the issuance by Comparaencasa Ltd. of warrants that grant the company the right (but not the obligation) to subscribe for shares in future investment rounds for up to U.S. Dollars 3,000,000.



Independent Auditor's Report

To the Board of Directors and Shareholders of
Banco Hipotecario S.A.

We have audited the accompanying consolidated financial statements of Banco Hipotecario S.A. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting rules prescribed by the *Banco Central de la República Argentina* (the "Argentine Central Bank"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Argentina and performed the auditing procedures required by the Argentine Central Bank. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco Hipotecario S.A. and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting rules prescribed by the Argentine Central Bank.

Emphasis of Matter

As described in Note 1.b. to the consolidated financial statements, the consolidated financial statements have been prepared in accordance with accounting rules prescribed by the Argentine Central Bank, which differ in certain respects from, and is a comprehensive basis of accounting other than, Argentine generally accepted accounting principles applicable to enterprises in general. Our opinion is not modified with respect to this matter.

Buenos Aires, Argentina February 10, 2016

Price Waterhouse & Co S.R.L.

A large, stylized handwritten signature in blue ink, appearing to read 'Marcelo Traut', is written over the typed name and title.

Marcelo Traut
Partner

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

As of December 31, 2015 and 2014

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	December 31,	
	2015	2014
ASSETS		
Cash and due from banks		
Cash.....	Ps. 642,791	Ps 796,125
Financial institutions and Correspondents.....	5,736,002	4,572,389
Argentine Central Bank (B.C.R.A.).....	5,517,127	4,157,439
Other domestic institutions.....	10,325	14,900
Other foreign institutions.....	208,550	400,050
	<u>6,378,793</u>	<u>5,368,514</u>
Government and corporate securities (Note 5)		
Holdings booked at fair market value.....	2,519,133	1,482,563
Holdings booked at cost plus return.....	528,936	141,147
Investments in listed corporate securities.....	590,328	369,587
Securities issued by the BCRA.....	1,814,986	2,524,738
Allowances	(7,121)	-
	<u>5,446,262</u>	<u>4,518,035</u>
Loans		
To the non-financial public sector.....	46,999	112,131
To the financial sector.....	198,130	339,190
Interfinancial (call granted).....	-	15,000
Other loans to domestic financial entities.....	196,269	316,480
Accrued interest, adjustments and quotation differences receivable.....	1,861	7,710
To the non-financial private sector and foreign residents.....	20,576,555	17,195,344
Overdrafts facilities.....	493,226	1,173,527
Promissory notes.....	310,407	369,360
Mortgage loans.....	2,631,874	2,349,468
Pledge loans.....	427,857	103,576
Personal loans.....	2,970,468	2,354,793
Credit card loans.....	9,903,383	7,155,260
Unallocated collections.....	(169,487)	(34,565)
Other (Note 6).....	3,778,237	3,536,442
Accrued interest and quotation differences receivable.....	260,161	213,947
Documented interest.....	(29,571)	(26,464)
Allowances (Note 9).....	(451,751)	(407,140)
	<u>20,369,933</u>	<u>17,239,525</u>
Other receivables from financial transactions		
Argentine Central Bank.....	535,922	340,892
Amounts receivable for spot and forward sales to be settled.....	868,187	141,032
Securities to be received under spot and forward purchases to be settled.....	379,276	212,891
Negotiable obligations without quotation.....	128,327	202,723
Balances of forward transactions not yet settled without delivery of underlying asset.....	18,828	20,457
Others not included in the debtor classification regulations (Note 7).....	2,612,831	1,259,353
Others included in the debtor classification regulations	24,169	190,161
Accrued interest receivable included in the debtor classification regulations	8,076	7,939
Allowances.....	(22,360)	(9,223)
	<u>4,553,256</u>	<u>2,366,225</u>

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET – (Continued)

As of December 31, 2015 and 2014

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	December 31,	
	2015	2014
Assets under financial leases.....		
Receivables for financial leases	129,179	106,740
Accrued interest and adjustments receivable	2,516	1,825
Allowances	(1,444)	(1,045)
	130,251	107,520
Investments in other companies	112,858	47,918
Miscellaneous receivables		
Minimum presumed income tax – fiscal credit.....	77,416	188,187
Others (Note 8).....	1,604,652	958,078
Other accrued interest receivable.....	2,343	2,237
Allowances.....	(10,811)	(13,978)
	1,673,600	1,134,524
Bank premises and equipment (Note 10).....	242,810	165,159
Miscellaneous assets (Note 11).....	65,120	59,790
Intangible assets (Note 10)		
Goodwill.....	16,792	20,222
Organization and development expenses.....	461,427	322,706
	478,219	342,928
Items pending allocation.....	6,797	1,373
Total Assets	Ps. 39,457,899	Ps. 31,351,511

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET – (Continued)

As of December 31, 2015 and 2014

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	December 31,	
	2015	2014
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits (Note 12)		
Non-financial public sector..... Ps.	6,819,957	Ps. 9,100,822
Financial sector.....	8,361	7,416
Non-financial private sector and foreign residents.....	13,563,895	9,225,875
Current accounts.....	648,295	760,533
Savings accounts.....	2,502,529	2,479,643
Time deposits.....	8,489,757	4,983,820
Investment accounts.....	1,550,115	713,438
Others.....	171,906	156,068
Accrued interest and quotation differences payable.....	201,293	132,373
	20,392,213	18,334,113
Other liabilities from financial transactions		
Argentine Central bank.....	102	71
Other.....	102	71
Unsubordinated negotiable obligations (Note 16).....	7,010,046	4,347,084
Amounts payable under spot and forward purchases to be settled...	338,469	213,374
Securities to be delivered under spot and forward sales to be settled.....	930,814	222,221
Loans received from domestic financial institutions.....	627,553	327,527
Interfinancial loans (call received).....	130,000	116,000
Other loans from domestic financial institutions.....	489,514	206,909
Accrued interest payable.....	8,039	4,618
Balances of forward transactions not yet settled without delivery of underlying asset.....	169,288	8,490
Others (Note 13).....	1,700,602	1,243,731
Accrued interest and quotation differences payable.....	147,873	112,874
	10,924,747	6,475,372
Miscellaneous liabilities		
Dividends payable.....	-	137
Fees.....	66,628	41,289
Others (Note 14).....	2,119,884	1,740,130
Accrued interest and quotation differences payable.....	14,330	-
	2,200,842	1,781,556
Provisions (Note 15).....	257,233	236,117
Subordinated bonds (Note 17).....	110,622	-
Items pending allocation.....	45,467	59,855
Non-controlling interest	85,871	67,591
Total Liabilities	34,016,995	26,954,604
SHAREHOLDERS' EQUITY	5,440,904	4,396,907
Total Liabilities and Shareholders' Equity Ps.	39,457,899	Ps. 31,351,511

The accompanying notes are an integral part of these consolidated financial statements.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2015, 2014 and 2013
(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Financial income			
Interest on cash and due from banks.....	3,675	15	9,838
Interest on loans to the financial sector.....	53,373	61,944	54,069
Interest on overdraft facilities.....	243,929	286,263	191,829
Interest on promissory notes.....	95,721	108,969	74,874
Interest on mortgage loans.....	433,639	358,216	280,835
Interest on pledge loans.....	131,265	25,566	10,108
Interest on credit card loans.....	2,153,739	1,462,040	817,560
Interest on financial leases.....	27,991	16,474	6,756
Interest on other loans.....	1,903,082	1,527,803	868,082
Interest on other receivables for financial transactions.....	22,775	24,314	25,985
Net income from government and corporate securities.....	1,764,289	974,592	580,384
Adjustments from application of CER clause.....	9,622	32,379	8,268
Adjustments from application of CVS clause.....	11	8	37
Others (Note 19).....	403,501	416,316	303,448
	<u>7,246,612</u>	<u>5,294,899</u>	<u>3,232,073</u>
Financial expenses			
Interest on saving accounts deposits.....	2,981	2,011	1,924
Interest on time deposits.....	2,110,592	1,507,010	817,373
Interest on interfinancial loans received.....	16,636	14,609	5,294
Interest on other loans from financial institutions...	76,807	84,326	55,871
Interest on other liabilities resulting from financial transactions.....	942,859	602,727	348,237
Interest on subordinated bonds.....	10,622	-	-
Other interest.....	188,906	152,051	21,609
Gold and foreign currency quotation differences...	198,116	108,909	74,002
Contribution to the deposits security fund.....	122,825	35,115	16,808
Others (Note 19).....	541,787	466,620	261,393
	<u>4,212,131</u>	<u>2,973,378</u>	<u>1,602,511</u>
Gross intermediation margin.....	Ps. 3,034,481	Ps. 2,321,521	Ps. 1,629,562
Provision for loan losses (Note 9).....	354,179	343,437	264,290
Income from services			
Linked with lending transactions.....	1,245,974	902,093	626,150
Linked with borrowing transactions.....	135,069	87,972	59,032
Other commissions.....	17,157	10,296	6,284
Others (Note 20).....	2,536,195	1,609,089	1,045,854
	<u>3,934,395</u>	<u>2,609,450</u>	<u>1,737,320</u>

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2015, 2014 and 2013
(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Expenses for services			
Commissions.....	173,739	157,018	100,715
Others (Note 20).....	<u>735,081</u>	<u>542,614</u>	<u>417,324</u>
	908,820	699,632	518,039
Administrative expenses			
Personnel expenses.....	2,313,783	1,674,466	1,138,026
Directors' and Syndics' fees.....	90,773	55,976	54,617
Other fees (Note 21).....	437,160	293,185	185,584
Advertising expenses.....	173,384	171,894	97,002
Taxes.....	213,188	145,519	106,194
Depreciation of bank premises and equipment.....	45,560	27,675	17,241
Amortization of organization and development expenses.....	99,504	56,767	28,628
Other operating expenses (Note 21).....	482,967	322,822	222,998
Other.....	<u>96,273</u>	<u>107,434</u>	<u>46,666</u>
	3,952,592	2,855,738	1,896,956
Net income from financial transactions.....	Ps. 1,753,285	Ps. 1,032,164	Ps. 687,597
Miscellaneous income			
Income from equity investments.....	13,767	3,748	-
Penalty interests.....	98,366	77,329	48,347
Loans recovered and allowances reversed.....	265,493	105,330	69,588
Others (Note 22).....	<u>117,358</u>	<u>94,127</u>	<u>59,147</u>
	494,984	280,534	177,082
Miscellaneous expenses			
Penalty interest and charges in favor of BCRA.....	292	910	35
Loan loss provision for miscellaneous receivables and other provisions.....	171,951	116,593	63,748
Depreciation and loss of miscellaneous assets.....	519	345	358
Amortization of goodwill.....	3,430	3,430	3,430
Other (Note 22).....	<u>370,441</u>	<u>240,460</u>	<u>174,857</u>
	546,633	361,738	242,428
Income before income taxes and Non-controlling interest.....	Ps. 1,704,713	Ps. 950,960	Ps. 622,251
Income taxes (Note 24).....	618,899	426,641	194,123
Non-controlling interest.....	<u>(3,077)</u>	<u>25,653</u>	<u>(7,178)</u>
Net income for the year.....	Ps. <u>1,085,814</u>	Ps. <u>549,972</u>	Ps. <u>420,950</u>

The accompanying notes are an integral part of these consolidated financial statements.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2015 and 2014
(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	Common stock (Note 26)	Paid in capital (Note 26)	Treasury stock (Note 26)	Inflation adjustment of common stock (Note 26)	<u>Reserves</u>		Retained
					Legal (Note 26)	Voluntary (Note 26)	Earnings
Balance as of December 3, 2012.....	Ps. 1,463,365	Ps. 834	Ps. 54,149	Ps. 699,601	Ps. 526,828	Ps. 367,601	Ps.
Retained earnings distribution approved by the General Shareholders' Meeting held on August 23, 2013	-	-	-	-	68,721	244,886	
Net income for the year	-	-	-	-	-	-	
Balance as of December 31, 2013.....	Ps. 1,463,365	Ps. 834	Ps. 54,149	Ps. 699,601	Ps. 595,549	Ps. 612,487	Ps.
Retained earnings distribution approved by the General Shareholders' Meeting held on April 24, 2014.	-	-	-	-	84,190	336,760	
Net income for the year	-	-	-	-	-	-	
Balance as of December 31, 2014.....	Ps. 1,463,365	Ps. 834	Ps. 54,149	Ps. 699,601	Ps. 679,739	Ps. 949,247	Ps.
Distribution of dividends approved by the General Shareholders' Meeting	-	-	-	-	-	-	
Retained earnings distribution approved by the General Shareholders' Meeting	-	-	-	-	109,994	103,218	
Net income for the year	-	-	-	-	-	-	
Balance as of December 31, 2015.....	Ps. 1,463,365	Ps. 834	Ps. 54,149	Ps. 699,601	Ps. 789,733	Ps. 1,052,465	Ps.

The accompanying notes are an integral part of these consolidated financial statements

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2015, 2014 and 2013

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash at beginning of fiscal year.....	Ps. 5,368,514	Ps. 2,240,567	Ps. 1,409,328
Cash at year end.....	6,378,793	5,368,514	2,240,567
Net increase / (decrease) in cash.....	Ps. <u>1,010,279</u>	Ps. <u>3,127,947</u>	Ps. <u>831,239</u>
<u>Causes of change changes</u>			
Operating activities			
Net collection / (payment) on:			
Government and corporate securities.....	(928,227)	(2,777,448)	338,349
Loans			
To the financial sector.....	141,060	40,118	(287,502)
To the non-financial public sector	65,132	27,242	251,970
To the non-financial private sector and foreign residents.....	(3,690,779)	(4,511,634)	(3,613,014)
Other receivables from financial transactions.....	(3,076,054)	(541,891)	(486,499)
Deposits			
To the financial sector.....	(2,280,865)	4,958,013	1,151,917
To the non-financial public sector	945	-	107
To the non-financial private sector and foreign residents.....	4,338,020	2,486,999	1,727,202
Other (except for liabilities under financing activities).....	2,620,070	639,577	158,964
Collections linked with income from services.....	3,934,395	2,609,450	1,737,320
Payments linked with expenses for services.....	(908,820)	(699,632)	(518,029)
Administrative expenses paid.....	(4,097,656)	(2,940,180)	(1,942,825)
Collection net of penalty interest.....	98,366	77,329	48,347
Payment of organization and development expenses.....	(135,291)	(144,341)	(101,985)
Other (payments) linked to miscellaneous income and expenses.....	(493,298)	(278,901)	(56,064)
Net collection / (Payment) from other operating activities.....	(71,364)	294,350	232,810
Net cash flow (used in) operating activities.....	Ps. <u>(4,484,366)</u>	Ps. <u>(760,949)</u>	Ps. <u>(1,358,932)</u>
Investment activities:			
Net payment on bank premises and equipment.....	(82,981)	(54,757)	(20,157)
Payment of dividends.....	(41,956)	-	(30,000)
Net cash flow (used in) by investment activities.....	Ps. <u>(124,937)</u>	Ps. <u>(54,757)</u>	Ps. <u>(50,157)</u>
Financing activities:			
Collections on unsubordinated negotiable obligations.....	2,662,962	1,698,654	634,752
Issue of subordinated bonds.....	110,622	-	-
Net cash flow originated by financing activities.....	Ps. <u>2,773,584</u>	Ps. <u>1,698,654</u>	Ps. <u>634,752</u>
Financial gain on holding of cash and cash equivalent (including interest and monetary results).....	2,845,998	2,244,999	1,605,576
Net increase / (decrease) in cash.....	Ps. <u>1,010,279</u>	Ps. <u>3,127,947</u>	Ps. <u>831,239</u>

The accompanying notes are an integral part of these consolidated financial statements.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2015 and 2014 and for the three years in the years ended December 31, 2015
(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

1. General

a. Description of business

Banco Hipotecario SA (herein after referred to as the “Bank” or “BHSA”), is a commercial bank, organized under the laws of Argentina.

The Bank historically has provided general banking services, focused on individual residential mortgage loans and construction-project loans directly to customers as well as indirectly through selected banks and other financial intermediaries throughout Argentina. In 2004, as part of its business diversification strategy, the Bank expanded its product offerings, beginning to offer personal loans, credit card loans and also engaging in mortgage loan securitizations, mortgage loan servicing, other corporate loans and insurance in connection with its lending activities.

b. Basis of presentation

The consolidated financial statements of the Bank have been prepared in accordance with the rules of Banco Central de la República Argentina (“Argentine Central Bank” or “BCRA”) which prescribe the accounting reporting and disclosure requirements for banks and financial institutions in Argentina (“Argentine Banking GAAP”). These rules differ in certain respects from generally accepted accounting principles in Argentina (“Argentine GAAP”) applicable to enterprises in general.

Certain reclassifications of prior period’s information have been made to conform to the current period presentation. Such reclassifications do not have a significant impact on the Bank financial statements.

c. Principles of consolidation

The consolidated financial statements include the accounts of the Bank and its subsidiaries over which the Bank has effective control. The percentages directly or indirectly held in those companies’ capital stock as of December 31, 2015 and 2014 are as follows:

Issuing Company	% held of capital stock
BHN Sociedad de Inversión Sociedad Anónima	100.00%
BHN Seguros Generales Sociedad Anónima	100.00%
BHN Vida Sociedad Anónima	100.00%
BACS Banco de Crédito y Securitización Sociedad Anónima	87.50%
BACS Administradora de activos S.A. S.G.F.C.I.	85.00%
Tarshop S.A. (*)	80.00%
BH Valores SA	100.00%

(*) On September 11, 2015, the Board of Directors of Banco Hipotecario S.A. approved an irrevocable capital contribution to Tarshop S.A. of Ps. 52,500 to be made by shareholders Banco Hipotecario S.A. and IRSA Propiedades Comerciales S.A. pro rata of their shareholdings. Additionally, on November 4, 2015, an irrevocable capital contribution to Tarshop S.A. of Ps. 52,500 to be made by shareholders Banco Hipotecario S.A. and IRSA Propiedades Comerciales S.A. pro rata of their shareholdings, was approved by the Board of Directors of Banco Hipotecario S.A..

The procedure followed by the Bank to include the controlled investees BHN Sociedad de Inversión Sociedad Anónima –consolidated– and BACS Banco de Crédito y Securitización Sociedad Anónima - consolidated-, BH Valores SA and Tarshop SA's accounts was as follows:

BANCO HIPOTECARIO SA AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2015 and 2014 and for the three years in the years ended December 31, 2015
(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

- 1.1. The Bank's financial statements have been prepared in line with the valuation and disclosure standards laid down by the Central Bank of the Republic of Argentina, including consolidated balances reported in the Balance Sheet, the Statement of Income, Memorandum Accounts and Statement of Cash Flow and Cash Equivalents of the referred companies, in compliance with such standards.
- 1.2. Items resulting from intercompany transactions not disclosed to third parties were eliminated from the Balance Sheet, the Statement of Income, Memorandum Accounts and Statement of Cash Flow and Cash equivalents and.
- 1.3. The portion of the Shareholders' Equity corresponding to the minority interest has been disclosed in the Consolidated Balance Sheet, in the line captioned "Minority Interest".
- 1.4. The portion of the net income/ (loss) on the minority interest has been disclosed in the Consolidated Statement of income, in the line captioned "Net income / (loss) on Minority Interest".

d. Presentation of financial statements in constant argentine pesos

The financial statements have been adjusted for inflation in conformity with the guidelines set in Communication "A" 551 of the Argentine Central Bank up to the financial year ended December 31, 1994, and prepared in accordance with the standards laid down by CONAU 1 Circular. As from January 1, 1995, and according to the authorization accorded by Resolution N° 388 of the Argentine Central Bank's Superintendency of Financial and Exchange Institutions, the Bank discontinued the adjustment for inflation of its financial statements until December 31, 2001. As from January 1, 2002, as a result of the application of Communication "A" 3702 which established the repeal of any legal and regulatory rule that did not allow companies to restate their accounting balances at year-end currency values, the Bank resumed the application of the adjustment for inflation in accordance with the rules issued in due time by the Argentine Central Bank using the adjustment coefficient derived from the domestic wholesale price index published by the National Statistics and Census Institute (INDEC). Furthermore, it has been considered that the accounting measurements derived from the changes in the purchasing power of the currency between December 31, 1994 and 2001 are stated in the currency value as of the latter date.

On March 25, 2003, the Executive Branch issued Decree 664 establishing that the financial statements for years ending as from that date are to be stated in nominal currency. Consequently, in accordance with Communication "A" 3921 of the BCRA, the restatement of the financial statements was discontinued as from March 1, 2003.

2. Significant Accounting Policies

The following is a summary of significant accounting policies used in the preparation of the consolidated financial statements.

2.1. Foreign Currency Assets and Liabilities

US dollar assets and liabilities have been valued at the rate of exchange between the peso and the US dollar published by the Argentine Central Bank. Assets and liabilities valued in foreign currencies other than the US dollar were converted into the latter currency using the swap rates communicated by the Argentine Central Bank's operations desk, in force at the close of operations on the last business day of the fiscal years ended December 31, 2015 and 2014.

Foreign currency transactions net gains or losses are recorded within "Financial income" or "Financial expenses" in the accompanying consolidated statements of income.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2015 and 2014 and for the three years in the years ended December 31, 2015
(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

2.2. Interest accruals and adjustments of principal amounts (CER and CVS)

Interest accruals were determined using the exponential method for all lending and certain borrowing transactions in local and foreign currency, and interest accruals for loans overdue more than ninety days were discontinued.

Adjustments of principal amounts from application of the CER (Reference Stabilization Index), and CVS were accrued as established by Argentine Central Bank regulations, and interest accruals on loans overdue more than ninety days were discontinued.

2.3. Government and Corporate Securities

As of December 31, 2015 and 2014, the securities classified as "Holdings booked at fair market value", "Investment in listed corporate securities" and "Securities issued by the BCRA" with volatility published by the BCRA, have been valued at year-end market quotation.

As of December 31, 2015, the Bank maintains in its portfolio overdue income coupons from the DICY and PARY bonds to be collected.

As of December 31, 2015 and 2014, the securities classified as "Holdings booked at cost plus return" and "Securities issued by the BCRA" with no volatility published by the BCRA or with volatility but which the Entity decides to book under the first category, have been valued at their acquisition cost subject to an exponential increase based on the internal rate of return, net of contra accounts, if applicable.

2.4. Loans

The portfolio of performing loans and loans due ninety days or less has been valued in terms of the principal amounts actually lent, plus capitalized interest, net of principal amortization collected and debt balance refinancing, plus adjustments (from the application of the CER, and CVS where applicable) and accrued interest receivable and less the estimated reserve for loan losses.

Other loans to the public sector:

- i) as of December 31, 2015 and 2014, those loans were valued at cost plus return, taking as cost their book value as of December 31, 2010.
- ii) those originally granted in foreign currency have been converted into Ps. at the exchange rate of \$1.40 per US dollar, as established by Law 25561, Decree 214 and complementary rules and amendments. Since February 3, 2002, the CER has been applied to the amount of those loans and maximum rates have been established, in accordance with Decree 1579/02, if those assets were subjected to the Exchange of Provincial Public Debt.

Loans to the non-financial private sector originally granted in foreign currency have been converted into Ps. at the exchange rate of \$1.00 per US dollar, as established by Law 25561, Decree 214 and complementary rules and amendments. Since February 3, 2002, the CER and CVS have been applied to the amount of those loans and maximum rates have been established, depending on the borrower.

2.5. Other receivables for financial transactions

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The individual mortgage loans of which the trustee ownership was transferred by the Bank and recorded in this caption have been valued and converted into pesos following the criterion described in points 2.2. and 2.4.

The rights arising from currency swap transactions have been valued at the quotation of that currency following the criterion described in point 2.1.

The financial trust participation certificates have been valued according to the equity method of accounting. Financial trust debt securities have been stated at cost plus return, index-adjusted by applying the CER to the appropriate instruments.

The interest rate swap transactions carried out for the purposes of hedging assets and liabilities with fixed and floating rates have been valued in accordance with the unsettled balances of agreed upon lending and borrowing interests rates.

As of December 30, 2015, the Bank carries some of its negotiable obligations which are valued at their residual value plus accrued interest.

Unlisted negotiable obligations have been valued at acquisition cost exponentially increased according to the internal rate of return.

Securities issued by the BCRA and government securities held as collateral for OTC transactions are valued as explained in item 2.3 of this note.

Repo transactions are carried at the value originally agreed upon, plus accrued premiums.

2.6. Receivables for financial leases

Receivables for financial leases are carried at the current value of the periodic installments and the residual value previously agreed upon, calculated as per the conditions set forth in the respective lease agreements, applying the internal rate of return and net of allowances for loan losses.

2.7. Investments in Other Companies

Permanent equity investments in companies where corporate decision are not influenced, are accounted for the lower of cost and the equity method. As of December 31, 2015 and 2014 these investments were recorded at cost.

This caption mainly includes the equity investments held in: Mercado Abierto Electrónico Sociedad Anónima, ACH Sociedad Anónima, Mercado de Valores de Buenos Aires Sociedad Anónima, and SUPER-CARD S.A..

Additionally the Bank has participations as protecting partner in mutual guarantee companies and has made contributions to the companies' risk fund. These companies are: Confederar NEA S.G.R., Don Mario S.G.R., Los Grobos S.G.R. and Intergarantías S.G.R.

2.8. Miscellaneous receivables

Miscellaneous receivables have been valued at the amounts actually transacted, plus interest accrued and net of allowances for loan losses or impairment, if applicable.

2.9. Bank Premises and Equipment and Miscellaneous Assets

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These assets are recorded at cost restated in constant monetary units until February 28, 2003, following the method mentioned in the second and third paragraphs of this Note, net of accumulated depreciation calculated following the straight-line method, based on the estimated useful life of the assets. The cost of assets added before December 31, 1994 is restated in uniform currency as of that date, while subsequent transactions are valued in current purchasing power values of the year to which they correspond.

Depreciation is computed under the straight-line method over the estimated useful lives of the related assets. The estimated useful lives for bank premises and equipment are as follows:

Buildings	50 years
Furniture and fixtures	10 years
Machinery and equipment	5 years
Other	5 years

The cost of maintenance and repairs of these properties is charged to expense as incurred. The cost of significant renewals and improvements is added to the carrying amount of the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the consolidated statement of income.

The Bank records in "Miscellaneous assets – Assets acquired through foreclosures" housing units added to the Bank's assets in repayment of mortgage loans. These housing units have been valued at the lower of market value or the value of the loan, net of allowances.

The net book values of the assets taken as a whole do not exceed their economic value, except for the assets intended for sale, which do not exceed their net realizable value.

2.10. Intangible Assets, Net

Organization and system development expenses have been restated in constant monetary units up until February 28, 2003, following the method mentioned in the second and third paragraphs of this Note, and are being amortized monthly according to the straight-line method, based on their estimated useful life.

The Goodwill stemming from the purchase of 80% of Tarshop SA's capital stock in 2010 has been valued at acquisition cost, net of the accumulated amortization that had been calculated pro rata of the estimated useful life months.

Pursuant to Argentine Central Bank Communication "A" 5392, the Bank has capitalized increased direct expenses incurred in the mortgage loan origination process in its capacity as trustee, which disbursements would not have been incurred by it had it not been for the grant of the related loans. Such origination expenses are amortized in 60 monthly installments (See note 32).

2.11 Housing, life and unemployment insurance premiums in lending transactions and other transactions originated in its capacity of insurer, in accordance with the franchise granted by the privatization law

The Bank's policy is to recognize the premium income when the corresponding loan installment accrues, except for those loans that are more than ninety days in arrears, and allocate the expenditures for claims to the net income/(loss) for the year in which they occur.

The Bank has set up an insurance claim reserve for Ps.1,181 as of December 31, 2014, which is shown in the "Provisions" caption under Liabilities.

2.12. Deposits

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Deposits have been valued at their placement value, plus adjustments from application of the CER and accrued interest, where applicable. The fixed return on each transaction is accrued on an exponential basis, while the variable return on time deposits adjusted by applying the CER and included in "Investment Accounts" is accrued at the pro rata agreed upon rate of return based on the improvement in the price of the financial asset or financial asset indicator, between the time the transaction is arranged and the end of the month.

2.13. Other liabilities from financial transactions

Unsubordinated negotiable obligations have been valued at their residual value plus accrued interest.

Foreign currency-denominated obligations under swap transactions carried out as a hedge have been converted into Argentine pesos according to the criterion described in note 2.1.

Interest rate swaps for agreed-upon fixed rate have been valued in accordance with the balances pending settlement of the agreed-upon lending and borrowing interest rates.

2.14. Miscellaneous liabilities

They are valued at the amounts actually transacted, plus accrued interest as of year end.

2.15. Provisions

The Bank estimates contingencies and records them in Provisions, under Liabilities, if applicable according to the estimated likelihood of occurrence. These provisions cover various items, such as insurance risk, provisions for lawsuits, provisions for taxes, other contingencies, etc..

In addition, the Bank has created the allowance required under Communication "A" 5689 issued by the Argentine Central Bank in order to provide for the total amount of administrative and/or disciplinary sanctions and criminal penalties supported by first instance rulings, applied or pursued by the Argentine Central Bank, the Financial Information Unit, the Argentine Securities Commission and the Argentine Superintendence of Insurance.

2.16. Dismissal indemnities

The Bank does not set up any provisions to cover the risk of dismissal indemnities involving the staff. The disbursements in respect thereof are charged to the results for the period or year in which they occur.

2.17. Personnel benefits

The Bank has set up provisions for its employees' retirement plans.

2.18. Subordinated Bonds

Subordinated negotiable obligations have been recorded at their residual value plus interests accrued.

2.19. Non-controlling interest

The breakdown of supplementary equity interests recorded in "Non-controlling interest" in the accompanying consolidated balance sheets is as follows:

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	December 31,	
	2015	2014
BACS Banco de Crédito y Securitización SA.....	Ps. 38,392	Ps. 30,603
Tarshop S.A.....	47,479	36,988
Total	Ps. 85,871	Ps. 67,591

2.20. Income Tax

Pursuant to Article 28 of Law 24855, Banco Hipotecario Sociedad Anónima is subject to income tax, except for all the housing loan transactions carried out prior to October 23, 1997, date of registration of its by-laws with the Superintendence of Corporations.

The Bank charges to income and sets up a provision under Liabilities for the income tax determined on its taxable transactions in the fiscal year in which those transactions are carried out.

The Bank recognizes income tax charges and liabilities on the basis of the tax returns corresponding to each fiscal year at the statutory tax rates. For all the periods contemplated in these financial statements, the corporate tax rate was 35%. Under Argentine Banking GAAP the Bank does not recognize deferred income taxes.

2.21. Minimum notional income tax

In view of the option granted by the BCRA by means of Communication "A" 4295, as of December 31, 2015 the Bank capitalized as a minimum notional income tax credit the tax amount paid in fiscal year 2012, on the basis of projections prepared and the possibility of recovering it and raising allowances when appropriate.

2.22. Shareholders' Equity

- a. Capital stock, treasury shares, non-capitalized contributions, reserves, and capital adjustment:

The Shareholders' Equity account activity and balances prior to December 31, 1994 have been stated in the currency values prevailing at that date, following the method mentioned in this Note. The transactions carried out subsequent to that date have been recorded in currency values of the period or year to which they correspond. The balances of the Shareholders' Equity accounts as of December 31, 2015 have been restated up to February 28, 2003 as explained in the third paragraph. The adjustment derived from the restatement of the balance of "Capital Stock" was allocated to "Equity Adjustments". The issued treasury shares added due to the termination of Total Return Swap transaction are carried at nominal value.

- b. Results:

Income and expenses have been recognized against the results for the fiscal year, regardless of whether they have been collected or paid.

The preparation of the financial statements requires that the Bank's Board of Directors perform estimates affecting assets and liabilities, the net income/ (loss) for the fiscal period or year and the determination of contingent assets and liabilities at the date thereof, such as allowances for loan losses and impairment, the recoverable value of assets and provisions. Since these estimates involve value judgments regarding the probability of occurrence of future events, the actual net income/ (loss) may differ from the estimated amount and thus generate losses or profits affecting

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subsequent periods or years. All legal and regulatory rules in force at the date of presentation of these financial statements have been considered.

The financial statement figures for the previous fiscal period or year, presented for comparative purposes, include certain reclassifications and adjustments that contemplate specific disclosure criteria so as to present them on a consistent basis with those of the current fiscal year.

2.23. Statements of Cash Flows

The consolidated statements of cash flows were prepared using the measurement methods prescribed by the BCRA.

For purposes of reporting cash flows, “Cash and cash equivalents” include “Cash and due from banks”.

3. Adoption of International Financial Reporting Standards

By virtue of its General Resolution No. 562, the Argentine Securities Commission (CNV) has decided to enforce the provisions under the Technical Pronouncement No. 26 of the Argentine Federation of Professional Councils in Economic Sciences (FACPCE) that adopts the International Financial Reporting Standards (IFRS) for all the companies overseen by CNV as from the fiscal years beginning on January 1, 2012.

The Bank is not obligated to apply these standards insofar as the CNV has excluded all the entities for which CNV is empowered to accept the accounting criteria laid down by other regulatory and/or oversight authorities (financial institutions, insurance companies, etc.) from using the IFRS.

On February 12, 2014, BCRA issued its Communication “A” 5541 whereby it provides a roadmap to convergence between the informational and accounting regime and IFRS. Pursuant to this Communication, the entities and institutions must start to account for their financial transactions and changes in accordance with the rules issued by BCRA following the above-mentioned convergence regime as from the fiscal years beginning on January 1, 2018. This roadmap includes the following steps:

- First half of 2015

Financial institutions prepared and filed their own convergence plan and provide the name of the compliance officer appointed to such end.

Disclosure of guidelines to be observed by institutions regarding reconciliations were filed with the BCRA.

- Second half of 2015

The institutions filed with the BCRA, together with the financial statements as of the fiscal year’s closing date, a reconciliation of the main asset, liability and shareholders’ equity captions with the amounts that would result from applying the rules issued by the BCRA under the scope of the IFRS convergence process. This information included a special report by the independent auditor and will be used exclusively by the BCRA for supervision and regulation purposes, and qualifies as non-public. Institutions reported on the degree of progress made in the IFRS Convergence Plan.

- Year 2016

According to the method and frequency established in due course, institutions shall continue to report to the BCRA the degree of progress made by them in the IFRS convergence process. In addition, they shall continue to disclose in their published financial statements that they are progressing in the IFRS Convergence Plan. There will be an issuance of a CONAU Circular to

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communicate the new Minimum Accounts Plan and Form of Financial Statements (New Informational and Accounting Regime for Quarterly / Annual Publication).

- Year 2017

As of January 1, 2017, institutions shall prepare the opening financial statements that will serve as basis for preparing their comparative financial statements. In each quarterly statement, they shall include a reconciliation of the main asset, liability and shareholders' equity captions and results with the amounts that would result from applying the rules issued by the BCRA under the scope of the IFRS convergence process. Such reconciliations shall be supported by a special report by the independent auditor. The quantitative information and the degree of progress of the IFRS Convergence Plan will be disclosed in a note to the published financial statements.

- Year 2018

As from the financial statements starting on January 1, 2018, financial institutions shall be required to record their transactions and equity changes in accordance with the rules issued by the BCRA under the IFRS convergence process. Therefore, as from the closing of the first quarter, they shall prepare and submit their published financial statements according to the above mentioned rules; the independent auditor shall issue an opinion thereon and such financial statements will be the ones used by the institutions for all legal and corporate purposes.

On March 31, 2015 the Bank's Board of Directors has approved (i) the Implementation Plan for Convergence towards the International Financial Reporting Standards dictated by the Communication "A" 5541 for Financial Entities subject to supervision of the BCRA; and (ii) the designation of the coordinators which will have the obligation to inform the Board of Directors the status and degree of progress of the project.

The plan contains the creation of a work team; coordination with the management of the related companies in which permanent investments are held, controlled companies or companies in which significant influence is exercised; design and communication of a training plan; identifying impacts on operations and the information to be submitted that requires the implementation of specific actions (adapting information systems, internal control, etc.).

Half-yearly reports must be made to the BCRA, showing the progress made in the Implementation Plan. The first due date of this presentation operates on September 30, 2015. Each half-yearly report shall include a report issued by the Internal Audit Department.

On September 11, 2015 the Board of Directors approved the document in which the progress of the convergence plan was detailed. In addition, on September 29, 2015, the Audit Committee approved the report issued by the Internal Audit on the degree of progress and compliance with the deadlines stipulated in respect of IFRS convergence plan. Both documents were submitted to the Central Bank on September 30, 2015.

In connection with the reconciliation of asset and liability captions as required by the IFRS as of December 31, 2015 to be submitted to the BCRA, Communication "A" 5844 dated December 4, 2015, established the guidelines for making the related filing.

Moreover, the due date of the first filing was scheduled for March 31, 2016. From then onwards, the balances shall be reported as of June 30 and December 31, and the filing dates will be September 30 and March 31, respectively, until the BCRA resolves to discontinue such filings. The information shall be accompanied by a special report issued by the independent auditor.

4. Restricted Assets

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Certain of the Bank's assets are pledged or restricted from use under various agreements. The following assets were restricted at each balance sheet date:

	December 31,	
	2015	2014
Banco Hipotecario S.A.		
Securities issued by the BCRA as collateral for OTC transactions.....	245,444	24,138
Government securities as collateral for OTC transactions.....	-	51,723
Deposits in pesos as collateral for visa credit card transactions...	188,047	82,706
Securities issued by the BCRA as collateral for the custody of securities.....	816	-
Government securities as collateral for the custody of securities.	230,850	157,675
Deposits in pesos as collateral for leases.....	932	682
Other collaterals	812	2
	<u>Ps. 666,901</u>	<u>Ps. 316,926</u>
Tarshop S.A.		
Deposits in pesos and in U\$S as collateral for leases.....	626	520
Certificates of participation in Financial Trusts granted as commercial pledge for a loan received.....	32,203	32,206
Time deposits pledged for tax obligations arising from Financial Trusts.....	5,383	4,263
Deposits in pesos related to Financial Trusts transactions.....	67,956	21,550
Receivables in trust to secure a syndicated loan received.....	-	54,144
Receivables in trust to secure an overdraft facility received.....	51,342	-
Loans to secure the future issuance of Financial Trust.....	84,666	-
Deposits in pesos as collateral for visa credit card transactions...	3,884	-
Government securities as collateral for visa credit card transactions.....	4,947	-
	<u>Ps. 251,007</u>	<u>Ps. 112,683</u>
BACS Banco de Crédito y Securitización S.A.		
Receivables in pledge loans to secure a loan received.....	54,674	-
Securities and pesos as collateral for OTC transactions.....	10,357	-
	<u>Ps. 65,031</u>	<u>Ps. -</u>
BH Valores S.A.		
Mercado de Valores de Buenos Aires SA's share pledged on behalf of Chubb Argentina de Seguros SA.....	Ps. 4,000	Ps. 4,000
	<u>Ps. 986,939</u>	<u>Ps. 433,609</u>
Total		

5. Government and Corporate securities

Government and Corporate Securities held by the Bank consist of the following balances:

	December 31,	
	2015	2014
Holding booked at market fair value		
Government securities in pesos.....	Ps. 1,492,885	Ps. 684,951
Government securities in US\$.....	705,231	440,518
Bills issued by Provincial Governments in US\$.....	321,017	357,094

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	<u>Ps. 2,519,133</u>	<u>Ps. 1,482,563</u>
Holding booked at cost plus return		
Government securities in pesos.....	-	101,943
Bills issued by Provincial Governments in pesos...	329,595	-
Bills issued by Provincial Governments in US\$.....	199,341	39,204
	<u>Ps. 528,936</u>	<u>Ps. 141,147</u>
Investment in listed corporate securities		
Corporate securities in pesos.....	Ps. 590,328	Ps. 369,587
Corporate securities in US\$.....	-	-
	<u>Ps. 590,328</u>	<u>Ps. 369,587</u>
Securities issued by the BCRA		
Quoted bills and notes issued by the BCRA.....	Ps. 937,617	Ps. 636,192
Unquoted bills and notes issued by the BCRA.....	877,369	1,888,546
	<u>Ps. 1,814,986</u>	<u>Ps. 2,524,738</u>
Allowances	<u>Ps. (7,121)</u>	<u>Ps. -</u>
Total	<u>Ps. 5,446,262</u>	<u>Ps. 4,518,035</u>

The bank recorded in their financial statements income from government and corporate securities for an amount of Ps. 1,764,289 and Ps. 974,592 as of December 31, 2015 and 2014, respectively.

6. Loans

Other loans to the non-financial private sector and foreign residents are comprised of the following for the periods indicated:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Working capital in pesos	Ps. 2,939,525	Ps. 2,624,490
Working capital in US dollars.....	311,372	482,542
Loans for the financing of manufacturers.....	59,160	33,695
Export prefinancing	468,180	395,715
Total	<u>Ps. 3,778,237</u>	<u>Ps. 3,536,442</u>

7. Other receivables from financial transactions

The breakdown of the "Other receivables not included in the debtor classification regulations" line, under the "Other receivables for financial transactions" caption, is as follows:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Bonds held in the Bank's portfolio.....	Ps. 11,866	Ps. -
Trust participation certificates.....	415,626	395,177
Debt securities.....	2,184,919	859,679
Other.....	420	4,497
Total	<u>Ps. 2,612,831</u>	<u>Ps. 1,259,353</u>

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8. Miscellaneous receivables

Other miscellaneous receivables are comprised of the following for the periods indicated:

	December 31,	
	2015	2014
Tax prepayments and withholdings.....	Ps. 68,393	Ps. 71,736
Recoverable expenses, taxes, and advances to third parties.....	374,279	227,360
Attachments for non-restructured ON.....	9,642	10,001
Other receivables from lawsuits.....	10,346	-
Guarantee deposit securing financial agreements.....	6,402	520
Guarantee deposit for credit card transactions.....	188,047	82,706
Guarantee deposit for global custody duties.....	231,666	157,675
Other Directors fees.....	26,061	19,327
Loans to Bank staff.....	187,880	179,944
Collections pending reporting by collecting entities.....	46,260	56,208
Goods, services and insurance related to leasing.....	27,128	20,023
Other.....	428,548	132,578
Total	<u>Ps. 1,604,652</u>	<u>Ps. 958,078</u>

9. Allowance for loan losses

The activity in the allowance for loan losses for the periods presented is as follows:

	December 31,	
	2015	2014
Balance at beginning of the year.....	Ps. 407,140	Ps. 308,632
Provision charged to income	354,179	343,437
Loans charged off.....	(309,568)	(244,929)
Balance at end of the year.....	<u>Ps. 451,751</u>	<u>Ps. 407,140</u>

10. Bank Premises and Equipment and Intangible Assets

The book values of major categories of bank premises and equipment and total accumulated depreciation as of the periods indicated are as follows:

	December 31,	
	2015	2014
Land and buildings.....	Ps. 133,740	Ps. 117,090
Furniture and fixtures.....	71,506	56,081
Machinery and equipment.....	238,985	165,292
Other.....	44,270	28,554
Accumulated depreciation.....	(245,691)	(201,858)
Total	<u>Ps. 242,810</u>	<u>Ps. 165,159</u>

Intangible assets, net of accumulated amortization, as of the end of periods indicated are as follows:

December 31,	
2015	2014

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Third parties fees, re-engineering, restructuring and capitalized software costs.....	Ps.	156,855	Ps.	116,159
Goodwill (*).....		16,792		20,222
Mortgage loan origination expenses related to Pro.Cre.Ar (see note 32).....		304,572		206,547
Total	Ps.	<u>478,219</u>	Ps.	<u>342,928</u>

(*) Goodwill is mainly related to the acquisition of Tarshop S.A., which has been allocated to the Credit card segment- Tarshop.

11. Miscellaneous assets

Miscellaneous assets consist of the following as of the end of each period:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Properties held for sale.....	Ps. 29,045	Ps. 29,847
Assets leased to others.....	22,861	26,365
Stationery and office supplies.....	27,177	21,554
Other.....	7,927	3,203
Accumulated depreciation.....	(21,890)	(21,179)
Total	Ps. <u>65,120</u>	Ps. <u>59,790</u>

12. Deposits

The breakdown of deposits is as follows:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Time deposits.....	Ps. 15,671,777	Ps. 9,671,476
Saving deposits.....	3,187,068	2,816,343
Checking accounts.....	1,351,893	4,962,612
Other deposits.....	181,475	883,682
Total	Ps. <u>20,392,213</u>	Ps. <u>18,334,113</u>

13. Other Liabilities from Financial Transactions

The breakdown of the "Others" line, under the "Other liabilities from financial transactions" caption, is as follows:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Collections and other transactions on behalf of third parties.....	Ps. 200,856	Ps. 59,733
Credit cards consumptions payable.....	934,657	853,784
Retail Bank Network.....	7,166	7,991
Financial hedge contract.....	533,386	300,347
Others.....	24,537	21,876
Total	Ps. <u>1,700,602</u>	Ps. <u>1,243,731</u>

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14. Miscellaneous Liabilities

Other miscellaneous liabilities consist of the following as of the end of each period:

	December 31,	
	2015	2014
Sundry creditors.....	Ps. 549,410	Ps. 722,139
Other fees and expenses payable.....	154,984	81,763
Tax withholdings and taxes payable.....	66,385	64,564
Taxes payable.....	632,533	437,811
Payroll withholdings and contributions.....	139,883	80,837
Salaries and social security charges payable.....	319,173	201,406
Other.....	257,516	151,610
Total	<u>Ps. 2,119,884</u>	<u>Ps. 1,740,130</u>

15. Provisions

Provisions as of the end of each period are as follows:

	December 31,	
	2015	2014
Provision for lawsuits (a).....	Ps. 116,560	Ps. 98,074
Contingency risks.....	84,137	89,549
Tax Provision.....	11,029	11,701
Customers' Loyalty Program.....	45,467	32,753
Provision for administrative-disciplinary-criminal penalties (b).	40	4,040
Total	<u>Ps. 257,233</u>	<u>Ps. 236,117</u>

(a) Includes legal contingencies and expected legal fees.

(b) As of December 31, 2014 includes a charge relating to a sanction for Ps. 4,040 imposed on BHSA by the Superintendent of Financial and Foreign Exchange Institutions through Resolution No. 685 in connection with the Financial Summary Proceedings No. 1320 (Note 31). At the close of these Financial Statements, this amount was deposited as resolved by the Executive Committee and the Bank's Board of Directors

16. Other Liabilities from Financial Transactions – Negotiable obligations

The balance of the negotiable obligations has been included in the "Other liabilities for financial transactions" caption. The residual face values of the different negotiable obligation series issued are as follows:

	Issue date	Maturity date	Annual interest rate (a)	December 31, 2015
Banco Hipotecario				
Series 5 (US\$ 250,000 thousand)	04/27/06	04/27/16	9.75%	1,147,974
Series XII (US\$. 44,508 thousand)	08/14/13	08/14/17	3.95%	513,802
Series XVI (Ps. 89,683)	01/31/14	01/31/16	Badlar +425bp	89,683
Series XXI (Ps. 222,345)	07/30/14	01/30/16	Badlar +275bp	222,345
Series XXIII (Ps. 119,386)	11/05/14	05/08/16	Badlar +325bp	119,386
Series XXIV (Ps. 27,505)	02/05/15	01/31/16	LEBACx0.95	27,505
Series XXV (Ps. 308,300)	02/05/15	08/05/16	9 months 27.5% and then Badlar +450bp	298,459
Series XXVII (Ps. 281,740)	05/22/15	11/22/16	9 months 28.0% and then Badlar +450bp	245,436

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Series XXIX (US\$. 200,000 thousand)	11/30/15	11/30/20	9.75%	2,601,000
Series XXX (Ps. 314,611)	09/04/15	03/04/17	9 months 28.25% and then Badlar +450bp	314,611
Series XXXI (US\$. 14,730 thousand)	09/04/15	09/04/18	2.0%	191,563
Series XXXII (Ps. 265,770)	11/30/15	05/30/17	3 months 27.0% and then Badlar +475bp	265,770

BACS Banco de Crédito y Securitización

Series III (Ps. 132,726)	08/19/14	05/19/16	Badlar +275bp	86,420
Series IV (Ps. 105,555)	11/21/14	08/21/16	Badlar +350bp	102,461
Series V (Ps. 150,000)	04/17/15	01/17/17	9 months 27.45% and then Badlar +450bp	145,777
Series VI (Ps. 141,666)	07/23/15	04/24/17	27.5%	138,508

Tarshop

Series XI (Ps. 10,837)	05/23/13	05/23/16	Badlar+580bp	9,718
Series XVIII (Ps. 69,291)	11/26/14	05/26/16	Badlar+425bp	68,755
Series XIX (Ps. 6,314)	11/26/14	11/26/17	Badlar+525bp	4,204
Series XX (Ps. 69,100)	04/24/15	01/24/16	27.5%	68,566
Series XXI (Ps. 80,500) ^v	04/24/14	10/24/16	12 months 28.5% and then Badlar+500bp	75,669
Series XXII (Ps. 126,667)	07/30/15	01/30/17	6 months 29.0% and then Badlar+500bp	120,438
Series XXII (Ps. 160,000)	11/16/15	05/16/17	Badlar+600bp	151,996
				7,010,046

(a) As of December 31, 2015 Badlar rate was 27,25% and LEBACS rate was 31,00%

The contractual maturities of the negotiable obligations are as follows as of December 31, 2015:

December 31, 2016.....	Ps.	2,562,377
December 31, 2017.....		1,655,106
December 31, 2018.....		191,563
Thereafter.....		2,601,000
Total	Ps.	7,010,046

The General Shareholders' Meeting held on May 23, 2008, approved the creation of a new Global Program for issuing Negotiable Obligations, not convertible into shares, with or without collateral, for an amount of up to two billion US dollars (US\$ 2,000,000,000) or the equivalent thereof in pesos.

On March 27, 2012, the General Ordinary Shareholders' Meeting approved the extension of the Global Program for the issuance of notes referred above. In addition, the meeting resolved to delegate on the Board of Directors the broadest powers to determine the time, amount, as well as the other terms and conditions of each Series to be issued. Additionally, on April 24, 2014, the General Ordinary Shareholders' Meeting renewed such delegation of powers.

On February 11, 2015 the Bank's Board of Directors approved the increase in the Program amount for up to US Dollars seven hundred million (US\$ 700,000,000) or its equivalent in pesos.

On May 6, 2015, the Bank's Board of Directors approved the increase in the Program amount for up to US dollars eight hundred million (US\$ 800,000,000) or its equivalent in pesos.

On November 30, 2015, the Bank issued Notes in the international capital markets for US Dollars two hundred million (US\$ 200,000,000) at an interest rate of 9.75% per annum, due in 2020.

On December 1, 2015 and December 2, 2015, the Bank repurchased and retired Series 5 Notes for US Dollars one hundred and twenty two million four hundred ninety-seven thousand (US\$ 122,497,000)

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and US Dollars one hundred and fifty-five thousand (US\$ 155,000), respectively, for which it paid US Dollars one hundred two with fifty cents (US\$ 102.50) for each US\$ 100 in face value.

17. Subordinated Bonds

At the Extraordinary General Shareholders' Meeting of BACS Banco de Crédito y Securitización S.A., 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.

On June 22, 2015, BACS issued negotiable obligations that are convertible into the Company's ordinary and book-entry shares for a principal amount of Ps.100,000.

The private offering of the convertible negotiable obligations was solely addressed to the Company's shareholders. IRSA Inversiones y Representaciones Sociedad Anónima subscribed all the convertible negotiable obligations.

18. Level I American Depositary Receipts Program

On March 27, 2006 the US Securities and Exchange Commission (SEC) has made effective the Level I American Depositary Receipts, "ADR" program.

This program allows foreign investors to buy the Bank's stock through the secondary market where ADRs are traded freely within the United States. The Bank of New York has been appointed as depositary institution.

19. Derivative Financial Instruments

The Bank has carried out its financial risk management through the subscription of several derivative financial instruments. Derivative instruments are recorded under the captions "Other receivable from financial transactions – Balances of forward transactions not yet settled without delivery of underlying asset" or Liabilities: "Other liabilities from financial transactions – Balances of forward transactions not yet settled without delivery of underlying asset" in the Consolidated Balance Sheet, and the related gain or loss under the captions "Financial Income – Other" or: "Financial Expenses – Other", respectively, in the Consolidated Statement of Income.

The following are the derivative financial instruments outstanding as of December 31, 2015 and 2014:

Type of Contract	Notional amount		Net Book Value Asset/(Liabilities)	
	2015	2014	2015	2014
Futures (1)				
Purchases	9,971,848	1,559,490		
Sales	(8,577,150)	1,221,115	1,205	488
Forwards (2)				
Sales	(692,500)	160,223	(142,500)	14,662
Interest Rate Swaps				
- CHA IX (3)	128,501	139,780	-	(801)
- CHA XI (5)	119,616	137,506	-	(800)
- CHA XII (6)	159,212	182,876	-	(734)
- CHA XIII (7)	87,946	92,973	-	(605)
- CHA XIV (8)	95,616	101,159	-	(592)

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Currency Swap CHA X (4)	(537,800)	(300,414)	(533,354)	(298,789)
			(674,649)	(287,171)

1. Futures: Future currency transactions have been carried out through which the forward purchase and sale of foreign currencies (US dollar) was agreed upon. These transactions were performed as hedge for foreign currency position. Settlement is carried on a daily basis for the difference.

For these transactions, as of December 31, 2015 and 2014, the Bank has recognized gains for Ps. 462,180 and Ps. 392,263, respectively.

2. Forwards: the Bank has undertaken futures transactions on US Dollars: overall, these are settled upon maturity without delivery of the underlying asset and with the payment in Pesos of currency differences.

For these transactions, as of December 31, 2015 and 2014, the Bank has recognized losses for Ps. 139,230 and gains of Ps. 31,114, respectively.

3. Interest rate swaps: On August 28, 2009, the Bank issued Series IX of Cédulas Hipotecarias Argentinas (CHA). For purposes of covering the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) from potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate less 245 bps and receives a fixed rate (9.1%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded losses for Ps.12,078 and Ps.16,068 as of December 31, 2015 and 2014, respectively.

4. Currency Swap: On August 28, 2009, the Bank issued Series X of Cédulas Hipotecarias Argentinas (CHA). For purposes of covering the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) from potential fluctuations in the dollar exchange rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a rate of 2% on a flow of dollars and receives a fixed rate on a flow of pesos (9.25%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded profits for Ps.10,572 and Ps.12,776 as of December 31, 2015 and 2014, respectively.

5. Interest rate swaps: On December 21, 2009, the Bank issued Series XI of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate less 291 bps and receives a fixed rate (11.33%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded losses for Ps.10,161 and Ps.12,249 as of December 31, 2015 and 2014, respectively.

6. Interest rate swaps: On July 21, 2010, the Bank issued Series XII of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate plus 10 bps and receives a fixed rate

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(13.25%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded losses for Ps.13,344 and Ps.18,315 as of December 31, 2015 and 2014, respectively.

7. Interest rate swaps: On December 2, 2010, the Bank issued Series XIII of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate plus 27 bps and receives a fixed rate (9.279%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded losses for Ps.11,184 and Ps.12,963 as of December 31, 2015 and 2014, respectively.
8. Interest rate swaps: On March 18, 2011, the Bank issued Series XIV of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate less 20 bps and receives a fixed rate (9.91%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded losses for Ps.11,569 and Ps.12,993 as of December 31, 2015 and 2014, respectively.

20. Securitization of mortgage loans, consumer loans and credit card loans

The Bank created separate trusts under its US securitization program and “Cédulas Hipotecarias Argentina – program”; and a consumer trust under BACS’s Global Trust Securities Program. For each mortgage or consumer trust, the Bank transfers a portfolio of mortgages or consumer loans originated by banks and other financial institutions in trust to the relevant trustee. The trustee then issues Class A senior Bonds, Class B subordinated bonds and certificates of participation. The trust’s payment obligations in respect of these instruments are collateralized by, and recourse is limited to, the trust’s assets consisting of the portfolio of mortgage or consumer loans and any reserve fund established by the Bank for such purpose. The securitizations were recorded as sales, and accordingly, the mortgage and consumer loans conveyed to the trusts are no longer recorded as assets of the Bank.

At the date of these financial statements the following trust funds are outstanding:

	Debt Securities Class A1/AV	Debt Securities Class A2/AF	Debt Securities Class B	Certificates of Participation	Total
BHN II – Issued on 05.09.97 (*)					
Face value in Ps.	44,554	51,363	3,730	6,927	106,574
Declared Maturity Date	03.25.2001	07.25.2009	03.25.2012	05.25.2013	
BHN III – Issued on 10.29.97 (*)					
Face value in Ps.	14,896	82,090	5,060	3,374	105,420
Declared Maturity Date	05.31.2017	05.31.2017	05.31.2018	05.31.2018	
BHN IV – Issued on 03.15.00 (*)					
Face value in Ps.	36,500	119,500	24,375	14,625	195,000
Declared Maturity Date	03.31.2011	03.31.2011	01.31.2020	01.31.2020	
BACS I – Issued on 02.15.2001 (*)					
Face value in Ps.	30,000	65,000	12,164	8,690	115,854
Declared Maturity Date	05.31.2010	05.31.2010	06.30.2020	06.30.2020	
BACS III – Issued on 12.23.2005					
Face value in Ps.	77,600		1,200	1,200	80,000

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Declared Maturity Date	03.20.2013		09.20.2013	08.20.2015	
BACS Funding I Issued on 11.15.2001 (*)					
Face value in Ps.	-	-	-	29,907	29,907
Declared Maturity Date				11.15.2031	
BACS Funding II Issued on 11.23.2001 (*)					
Face value in Ps.	-	-	-	12,104	12,104
Declared Maturity Date				11.23.2031	
BHSA I Issued on 02.01.2002					
Face value in Ps.	-	-	-	43,412	43,412
Declared Maturity Date				02.01.2021	
CHA VI Issued on 04.07.2006					
Face value in Ps.	56,702	-	-	12,447	69,149
Declared Maturity Date	12.31.2016			12.31.2026	
CHA VII Issued on 09.27.2006					
Face value in Ps.	58,527	-	-	12,848	71,375
Declared Maturity Date	08.31.2017			02.28.2028	
CHA VIII Issued on 03.26.2007					
Face value in Ps.	61,088	-	-	13,409	74,497
Declared Maturity Date	08.31.2024			08.31.2028	
CHA IX Issued on 08.28.2009					
Face value in 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 Ps.	-	-	-	17,224	17,224
Face value en US\$	85,001	-	-	-	85,001
Declared Maturity Date	01.07.2027			06.07.2028	
CHA XI Issued on 12.21.2009					
Face value in 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 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 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 Ps.	119,876	-	-	6,309	126,185
Declared Maturity Date	05.10.2030			08.10.2030	

(*) Trusts subject to the pesification of foreign currency assets and liabilities at the \$1.00=US\$1 rate established by Law 25561 and Decree 214, as they were created under Argentine legislation. Certain holders of Class A debt securities have started declarative actions against the trustee pursuant to the application of the pesification measures set forth in Law 25561 and Decree 214, in order to maintain the currency of origin of said securities. In these declarative actions, the Bank acted together with BACS as third party. The trustee has duly answered to this claim, being the final resolution to this situation is still pending.

Tarshop S.A. has created several financial trusts under its securitization program (“Valores Fiduciarios Tarjeta Shopping – Global program”) destined to assure its long-term financing accessing directly to the capital market. The assets included in the trusts relate to credit card coupons and advances in cash. The table below presents the trusts issued and outstanding as of December 31, 2015:

	Debt Securities	Certificates of Participation	Total
Series LXXXII– Issued on 01.19.15			
Face value in Ps.	87,450	33,489	120,939
Estimated Maturity Date	03.07.2016	03.07.2016	
Series LXXXIII– Issued on 05.27.15			
Face value in Ps.	111,222	42,591	153,813

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Estimated Maturity Date	08.05.2016	08.05.2016	
Series LXXXIV– Issued on 03.12.15			
Face value in Ps.	104,865	39,010	143,875
Estimated Maturity Date	09.05.2016	09.05.2016	
Series LXXXV–Issued on 11.24.15			
Estimated Maturity Date	01.05.2017	01.05.2017	
Face value in Ps.	128,500	47,800	176,300
Series LXXXVI– Privately Issued on 11.15.15			
Face value in Ps.	126,050	48,167	174,217
Series LXXXVII– Privately issued on 12.04.15			
Face value in Ps.	97,590	39,490	137,080
Tarshop Privado Series I - Privately issued on 08.21.15			
Face value in Ps.	1,051,595	329,362	1,380,957
Tarshop Privado Series II - Privately issued on 12.23.15			
Face value in Ps.	85,000	26,623-	111,623
Tarshop Series I - Privately issued on 09.15.15			
Face value in Ps.	86,776	12,967-	99,743

In all cases, the payment of class B debt securities is subordinated to the payment of the class A securities. In addition, the reimbursement of the participation certificates shall be done once all the class A and B securities issued have been settled, to the extent that there are sufficient remaining funds in the trust fund.

On July 29, 2005, the Bank and the subsidiary BACS Banco de Crédito y Securitización SA initiated legal actions against First Trust of New York National Association, in its capacity of trustee under BACS I Mortgage Trust, demanding fulfillment of the Trust Agreement and a compensation for damages caused by the trustee's behavior.

The same default behavior by the Trustee was detected in financial trusts BHN II, BHN III, and BHN IV. In the opinion of the legal counselors representing the Bank and BACS Banco de Crédito and Securitización SA in said legal proceedings, pursuant to the regulations in force, this lawsuit should be successful, and therefore there is no potential risk to any of the banks, and it is estimated that the assets shall be recovered. Notwithstanding, in exercise of a prudent criterion, as of December 31, 2015, the entity has not recognized amounts on account of interest, adjustments and possible impairments arising from these trusts.

On December 21, 2015, notice was given to the holders of debt securities and certificates of participation in the BHN II, BHN III, BHN IV and BACS trusts that all the plaintiffs had relinquished the legal claims pending before the National First Instance Court in Commercial Matters No. 16, Clerks' Office No. 32, of the City of Buenos Aires.

Such relinquishment has allowed the trustee to distribute all the trust funds available, net of the payment of taxes and expenses, and to repay the total balance; therefore, there are no trust securities outstanding payment.

Moreover, following instructions imparted by Banco Hipotecario S.A. in its capacity as beneficiary, the trust estate, composed of mortgage loans, will be transferred to a private trust named Fideicomiso Original, and the liquidation process in respect of the BHN II, BHN III, BHN IV and BACS I trusts will commence.

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BACS Banco de Crédito y Securitización S.A. (BACS) has created separate trusts which have personal loans, primary originated by cooperatives and later acquired by BACS, as assets. The mentioned trusts have been issued under the "Fideicomisos Financieros BACS – Global program" for the securitization for a face value up to Ps. 300,000. As of December 31, 2015 there are no trusts outstanding.

As of December 31, 2015 and 2014, the Bank held in its portfolio the following securities corresponding to the abovementioned trusts:

	December 31,	
	2015	2014
Class B debt securities – BHN II	Ps. -	Ps. 7,000
Class B debt securities – BHN III	-	7,203
Class B debt securities – BHN IV	-	79,351
Class B debt securities – BACS I	-	20,234
Class A debt securities – BHN IV	-	44
Class A debt securities – CHA VI to CHA XIV	94,194	73,349
Class A debt securities – BACS I	-	1,081
Debt securities – BACS III	14,849	17,169
Debt securities – Tarshop Series LXXV	-	158
Debt securities – Tarshop Series LXXVI	-	180
Debt securities – Tarshop Series LXXVII	-	6,031
Debt securities – Tarshop Series LXXVIII	-	18,041
Debt securities – Tarshop Series LXXIX	-	9,894
Debt securities – Tarshop Series LXXXII	1,197	-
Debt securities – Tarshop Series LXXXIII	5,075	-
Debt securities – Tarshop Series LXXXVI	33,935	-
Debt securities – Tarshop Series LXXXVII	30,639	-
Debt securities – Tarshop Series I	87,935	-
Debt securities – Tarshop Privado Series I	1,078,481	-
Debt securities – Tarshop Privado Series II	85,637	-
Subtotal	Ps. 1,431,942	Ps. 239,735

	December 31,	
	2015	2014
Certificates of participation – BHN II	Ps. -	Ps. 41,722
Certificates of participation – BHN III	-	14,970
Certificates of participation – CHA VI	13,612	13,639
Certificates of participation – CHA VII	-	2,739
Certificates of participation – CHA VIII	-	917
Certificates of participation – CHA IX	10,422	9,983
Certificates of participation – CHA X	25,103	26,704
Certificates of participation – CHA XI	13,258	14,273
Certificates of participation – CHA XII	17,181	18,887
Certificates of participation – CHA XIII	5,188	5,817
Certificates of participation – CHA XIV	4,837	5,978
Certificates of participation – BHSA I	9,016	6,724
Certificates of participation – BACS III (a)	-	-
Certificates of Participation – Tarshop Series LXXV	-	28,687
Certificates of Participation – Tarshop Series LXXVI	-	24,345
Certificates of Participation – Tarshop Series LXXVII	-	34,272
Certificates of Participation – Tarshop Series LXXVIII	-	46,623

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Certificates of Participation – Tarshop Series LXXIX	-	44,568
Certificates of Participation – Tarshop Series LXXX	-	29,834
Certificates of Participation – Tarshop Series LXXXI	-	23,492
Certificates of Participation – Tarshop Series LXXXII	13,451	-
Certificates of Participation – Tarshop Series LXXXIII	20,936	-
Certificates of Participation – Tarshop Series LXXXIV	18,039	-
Certificates of Participation – Tarshop Series LXXXV	25,546	-
Certificates of Participation – Tarshop Series LXXXVI	22,768	-
Certificates of Participation – Tarshop Series LXXXVII	27,476	-
Certificates of Participation – Tarshop Series I	6,473	-
Certificates of Participation – Tarshop Privado Series I	165,897	-
Certificates of Participation – Tarshop Privado Series II	15,420	-
Subtotal	<u>Ps. 414,623</u>	<u>Ps. 394,174</u>
Total	<u>Ps. 1,846,565</u>	<u>Ps. 633,909</u>

(a) Net of allowances for impairment of Ps. 1,003 as of December 31, 2015 and 2014.

21. Financial Income and Financial Expenses

Financial Income

The breakdown of the "Others" line included in the "Financial income" caption is as follows:

	<u>December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Premiums for repo transactions.....	Ps. 75,352	Ps. 51,384	Ps. 28,241
Premiums for forward transactions.....	322,962	363,202	273,437
Others.....	5,187	1,730	1,770
Total	<u>Ps. 403,501</u>	<u>Ps. 416,316</u>	<u>Ps. 303,448</u>

Financial Expenses

The breakdown of the "Others" line included in the "Financial expenses" caption is as follows:

	<u>December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Turnover tax on financial income.....	Ps. 457,219	Ps. 348,955	Ps. 220,751
Premiums on swap and repo transactions.....	26,665	46,541	8,679
Result from interest rate swaps.....	57,903	71,124	31,963
Total	<u>Ps. 541,787</u>	<u>Ps. 466,620</u>	<u>Ps. 261,393</u>

22. Income from Services and Expenses on Services

Income from Services

Other income from services consist of the following for each period:

	<u>December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Insurance premiums and services.....	Ps. 1,475,554	Ps. 906,052	Ps. 542,405

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Services on loans.....	627,012	458,936	373,114
Fees from deposits.....	79,279	77,087	42,610
Fees from debit cards.....	38,679	26,702	15,920
Fees from PROCREAR.....	196,614	62,093	21,179
Other.....	119,057	78,219	50,626
Total	<u>Ps. 2,536,195</u>	<u>Ps. 1,609,089</u>	<u>Ps. 1,045,854</u>

Expenses for Services

Other expenses for services consist of the following for each period:

	December 31,		
	2015	2014	2013
Insurance claims.....	Ps. 230,692	Ps. 137,694	Ps. 87,963
Services on loans.....	343,530	304,907	252,758
Turnover tax.....	106,913	58,949	57,679
Other.....	53,946	41,064	18,924
Total	<u>Ps. 735,081</u>	<u>Ps. 542,614</u>	<u>Ps. 417,324</u>

23. Administrative Expenses

Other fees consist of the following as of the end of each period:

	December 31,		
	2015	2014	2013
Legal, notarial, accounting and tax consulting services.....	Ps. 20,835	Ps. 36,753	Ps. 10,597
Temporary personnel.....	132,886	107,181	71,478
Consulting services.....	98,803	54,074	40,115
Collection services.....	61,710	28,950	9,388
Other.....	122,926	66,227	54,006
Total	<u>Ps. 437,160</u>	<u>Ps. 293,185</u>	<u>Ps. 185,584</u>

The breakdown of the "Other operating expenses" line included in the "Administrative expenses" caption is as follows:

	December 31,		
	2015	2014	2013
Insurance.....	Ps. 13,474	Ps. 7,162	Ps. 7,793
Rent.....	109,630	86,146	58,125
Telephony, electricity, and mailing services.....	132,891	76,403	62,418
System links	22,909	12,189	8,066
Maintenance and conservation of premises and equipment.....	91,455	59,778	32,858
Surveillance	55,489	36,963	24,730
Other.....	57,119	44,181	29,008
Total	<u>Ps. 482,967</u>	<u>Ps. 322,822</u>	<u>Ps. 222,998</u>

24. Other Miscellaneous Income and Miscellaneous Expenses

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Miscellaneous Income

Other miscellaneous income is comprised of the following for each period:

	December 31,		
	2015	2014	2013
Rental income.....	Ps. 2,742	Ps. 2,252	Ps. 2,182
Result on operations with premises and equipment and miscellaneous assets	2,363	2,846	1,433
Interest on loans to bank staff.....	33,193	29,751	23,136
Results on securities given as collateral.....	56,289	42,679	17,914
Interests on pesos and dollars given as collateral....	-	9,968	6,167
Other.....	22,771	6,631	8,315
Total	Ps. 117,358	Ps. 94,127	Ps. 59,147

Miscellaneous Expenses

Other miscellaneous expenses are comprised of the following for each period:

	December 31,		
	2015	2014	2013
Turnover tax.....	Ps. 90,808	Ps. 56,902	Ps. 31,254
Other taxes.....	71,448	59,767	30,215
Loss on operations with premises and equipment and miscellaneous assets.....	-	-	1,292
Donations.....	36,529	25,371	23,194
Discounts on early payments.....	5,355	8,578	5,451
Commercial discount.....	-	-	62
Debit card discounts.....	21,989	17,422	12,038
Credit card and others discounts.....	51,541	42,933	48,617
Payment Summary proceedings in financial matters N° 1320 (*).....	53,632	-	-
Other	39,139	29,487	22,734
Total	Ps. 370,441	Ps. 240,460	Ps. 174,857

(*)At the close of these Financial Statements, the Bank's Board of Directors granted its approval to the actions undertaken by the Executive Committee concerning the deposit of the penalties imposed on directors, former directors, managers, former managers and statutory auditors and the fact that such amounts were charged against the statement of income in the framework of the Financial Summary Proceedings No. 1320 (Note 31).

25. Balances in Foreign Currency

The balances of assets and liabilities denominated in foreign currency (principally in US dollars and Euros) are as follows:

	US\$	Euro	Yen	Total
	(in Pesos)			
Assets:				
Cash and due from banks.....	4,481,178	23,274	7	4,504,459
Government and corporate securities.....	1,508,798	-	-	1,508,798

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Loans.....	932,258	-	-	932,258
Other receivables from financial transactions...	143,870	-	-	143,870
Miscellaneous receivables.....	13,655	14	-	13,669
Items pending allocation.....	351	7	-	358
Total as of December 31, 2015	<u>7,080,110</u>	<u>23,295</u>	<u>7</u>	<u>7,103,412</u>
Total as of December 31, 2014	<u>3,166,490</u>	<u>13,444</u>	<u>5</u>	<u>3,179,939</u>
Liabilities:				
Deposits.....	1,410,844	-	-	1,410,844
Other liabilities from financial transactions....	4,728,438	17	-	4,728,455
Miscellaneous liabilities.....	22,527	15	-	22,542
Items pending allocation.....	234	14	-	248
Total as of December 31, 2015	<u>6,162,043</u>	<u>46</u>	<u>-</u>	<u>6,162,089</u>
Total as of December 31, 2014	<u>2,780,479</u>	<u>76</u>	<u>-</u>	<u>2,780,555</u>

26. Income Tax

Effective October 1997, as a result of conversion to a *sociedad anónima*, the Bank is subject to income tax in Argentina except on its income attributable to mortgage loan commitments made prior to that date.

As a general rule, the income tax law allows the deduction of expenses incurred to obtain or maintain the source of taxable income. For purposes of deducting from the taxable revenues those expenses incurred to obtain jointly taxable and non-taxable income, expenses should be segregated accordingly.

Furthermore, the fiscal rule gives prerogative to the direct allocation method rather than the apportionment method to determine the deductible expenses. Thus, the apportionment method should only be used when it is not possible to make direct allocation of expenses to the taxable revenue.

The Bank records the charges to income, when applicable, and a provision in its liabilities for the tax applicable to its taxable transactions in the fiscal year to which they refer.

As of December 31, 2015 and 2014, the Bank estimated income tax by applying the 35% tax rate to its taxable income. The amount determined as income tax was charged against income for the fiscal period under "Income Tax". The provision for income tax is recorded under "Miscellaneous Liabilities – Other".

27. Presumptive Minimum Income Tax

The Bank is subject to presumptive minimum income tax. Pursuant to this tax regime, the Bank is required to pay the greater of the income tax or the presumptive minimum income tax. Any excess of the presumptive minimum income tax over the income tax may be carried forward and recognized as a tax credit against future income taxes payable over a 10-year period. The presumptive minimum income tax provision is calculated on an individual entity basis at the statutory asset tax rate of 1% and is based upon the taxable assets of each company as of the end of the year, as defined by Argentine law. For financial entities, the taxable basis is 20% of their computable assets.

The tax credit balance held by BHSA at the closing date of these financial statements is Ps. 4,172. Additionally, at December 31, 2015, Tarshop S.A. recorded Ps. 73,244 of tax credit.

28. Shareholders' Equity

The following information relates to the statements of changes in the Bank's shareholders' equity.

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(a) Common Stock

Prior to June 30, 1997, the Bank's capital stock consisted of assigned capital with no par value owned 100% by the Argentine government. In accordance with the by-laws approved as a result of the conversion of the Bank to a *sociedad anónima*, the Bank's capital stock was established at Ps.1,500,000 and divided into four classes of ordinary common shares.

As of December 31, 2015, the Bank's capital stock consists of:

Shareholder	Class of Shares	Number of Shares	Total % Ownership	Voting Rights
Argentine government (through FFFRI) (b)	A	666,075,718	44.4%	1 vote
Banco Nación, as trustee for the Bank's Programa de Propiedad Participada (a)	B	57,009,279	3.8%	1 vote
Argentine government (through FFFRI)	C	75,000,000	5.0%	1 vote
Public investors (c) (d)	D	701,915,003	46.8%	3 votes
		<u>1,500,000,000</u>	<u>100.0%</u>	

(a) The Bank's *Programa de Propiedad Participada* ("PPP") is the Bank's employee stock ownership plan.

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.

- (b) Under the Bylaws, the affirmative vote of the holders of Class A Shares is required in order to effectuate: (i) mergers or spin-offs; (ii) an acquisition of shares (constituting a Control Acquisition or resulting in the Bank being subject to a control situation); (iii) the transfer to third parties of a substantial part of the loan portfolio of the Bank, (iv) a change in the Bank's corporate purpose; (v) the transfer of the Bank's corporate domicile outside of Argentina, and (vi) the voluntary dissolution of the Bank.
- (c) For so long as Class A Shares represent more than 42% of the Bank's capital, the Class D Shares shall be entitled to three votes per share, except that holders of Class D Shares will be entitled to one vote per share in the case of a vote on: (i) a fundamental change in the Bank's corporate purpose; (ii) a change of the Bank's domicile to be outside of Argentina; (iii) dissolution prior to the expiration of the Bank's corporate existence; (iv) a merger or spin-off in which the Bank is not the surviving corporation; and (v) a total or partial recapitalization following a mandatory reduction of capital.
- (d) By reason of 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 ordinary Class "D" shares in Banco Hipotecario Sociedad Anónima with face value \$ 1 each, which are available for the term and in the conditions prescribed by the Argentine Companies Law, in its Section 221. The General Ordinary Shareholders' Meeting held on April 30, 2010 resolved to extend for a year, counted as from January 31, 2010, the term for realizing the treasury shares held by the Bank.

On April 30, 2010, the General Extraordinary Shareholders' Meeting resolved to delegate upon the Board of Directors the decision to pay with the treasury shares in portfolio the Stock Appreciation

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Rights (StAR) coupons resulting from the debt restructuring as advisable based on the contractually agreed valuation methods and their actual market value after allowing the shareholders to exercise their preemptive rights on an equal footing.

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 Stock Appreciation Rights (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 Stock Appreciation Rights (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 were recorded as 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 a further Ps. 834 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 shares held by the Bank to a compensation program for the personnel under the terms of Section 67 of Law 26831. This decision is pending approval of CNV.

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.

The Class B shares have been set aside for sale to the Bank's employees in the future pursuant to the PPP on terms and conditions to be established by the Argentine government. Any Class B shares not acquired by the Bank's employees at the time the Bank implements the PPP will automatically convert into Class A shares. The Class C shares are eligible for sale only to companies engaging in housing construction or real estate activities. Any Class B shares transferred by an employee outside the PPP will automatically convert to Class D shares or Class C shares transferred to persons not engaged in construction or real estate activities will automatically convert into Class D shares.

(b) Distribution of profits

No profits may be distributed when any financial year does not produce profits.

Argentine Central Bank Communication "A" 4152 dated June 2, 2004 left without effect the suspension of the distribution of profits established by Communication "A" 3574. However, those banks that proceed to such distribution must be previously authorized by the Financial and Exchange Institutions Superintendency.

Through Communication "A" 4526 dated April 24, 2006, the BCRA established that when the Legal Reserve is used to absorb losses, earnings shall not be distributed until the reimbursement thereof. Should the balance prior to the absorption exceed 20% of the Capital Stock plus the Capital Adjustment, profits may be distributed once the latest value is reached.

For purposes of determining distributable balances, the net difference arising from the book value and the market quotation shall be deducted from retained earnings, in the event the Entity records

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government debt securities and/or debt securities issued by the BCRA not recorded at market prices, with volatility published by such entity.

Pursuant to its Communication “A” 5072, BCRA established that no dividend distribution shall be admitted in so far as: a) the amounts deposited as minimum cash requirements on average – in Pesos, foreign currency or in Government securities – were less than the requirements pertaining to the most recently closed position or the position as projected taking into account the effect of the distribution of dividends, and/or b) the amounts deposited as minimum capital requirements were less than the requirements recalculated as previously mentioned plus a 30% increase, and/or c) the Entity has received financial aid from the BCRA on grounds of illiquidity as set forth in Section 17 of BCRA’s Charter.

On January 27, 2012, the BCRA issued Communication “A” 5272 whereby it established that for the calculation of the minimum capital requirement, the minimum capital for operational risk shall be included. On the same date, Communication “A” 5273 was also issued, whereby the BCRA resolved to increase the percentage referred to in the preceding paragraph, subsection b), from 30% to 75%.

Communication “A” 5369 provided that as from January 1, 2013, for the purposes of calculating the position of minimum capitals, the capital requirement for credit risk due to securitizations must be computed over all the transactions outstanding as of the computation date.

On September 23, 2013 the Argentine Congress enacted Law N° 26,983 which amends the Income Tax Law and sets forth that dividends or earnings in money or in kind shall be levied with Income Tax at a 10% tax rate payable in a final and lump sum.

The Ordinary General Shareholders’ Meeting, held on April 13, 2011, resolved to distribute the income for the year ended on December 31, 2010 as follows: Ps. 39,063 (20%), to be applied to the legal reserve Ps. 100,000 (61.59%), to be paid out as cash dividends on ordinary shares, and the balance, after the Board’s remuneration, to be maintained as retained earnings. On September 20, 2012, the BCRA reported that there were no objections against the Bank’s distribution of cash dividends for Ps. 100,000, as requested. For such reason, on October 10, 2012 such cash funds were made available to the shareholders.

The Ordinary General Shareholders’ Meeting, held on August 23, 2013, resolved to distribute the income for the year ended on December 31, 2012 as follows: Ps. 68,721, to be applied to the legal reserve; Ps. 30,000, to be paid out as cash dividends on ordinary shares; and Ps. 244,886 to be maintained as retained earnings. This decision has been approved by BCRA.

On April 24, 2014, the Ordinary General Shareholders’ Meeting resolved to distribute the income for the year ended on December 31, 2013 as follows: Ps. 84,190, to be applied to the legal reserve; Ps. 42,000, to be paid out as cash dividends on ordinary shares; and Ps. 294,760 to be maintained as retained earnings. This decision has been approved by BCRA on December 23, 2014. At its meeting dated January 7, 2015, the Board of Directors of Banco Hipotecario S.A. resolved that these dividends should be made available to the shareholders as of January 16, 2015.

29. Employee Benefit Plan

The Bank is obligated to make employer contributions to the National Pension Plan System determined on the basis of the total monthly payroll. These expenses are recorded in “Salaries and social security contributions” under the “Administrative expenses” caption in the accompanying consolidated statements of income.

30. Financial Instruments with Off-Balance Sheet Risk

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In the normal course of its business the Bank is party to financial instruments with off-balance sheet risk in order to meet the financing needs of its customers. These instruments expose the Bank to credit risk in addition to amounts recognized in the balance sheets. These financial instruments include commitments to extend credit.

	December 31,	
	2015	2014
Commitments to extend credit		
Mortgage loans and other loans (a).....	Ps. 231,547	Ps. 119,400
Credit card loans (b).....	18,836,561	11,242,709
Clearing items in process (c).....	167,336	248,279
Other guarantees (d).....	407,499	48,680

- a) Commitments to extend credit are agreements to lend to a customer at a future date, subject to such customers meeting of pre-defined contractual milestones. Typically, the Bank will commit to extend financing for construction project lending on the basis of the certified progress of the work under construction. Most arrangements require the borrower to pledge the land or buildings under construction as collateral. In the opinion of management, the Bank's outstanding commitments do not represent unusual credit risk. The Bank's exposure to credit loss in the event of nonperformance by the other party is represented by the contractual notional amount of those commitments.
- b) The Bank has a unilateral and irrevocable right to reduce or change the credit card limit, thus it considered there is no off-balance sheet risk. In the opinion of management, the Bank's outstanding commitments do not represent unusual credit risk. The Bank's exposure to credit loss in the event of nonperformance by the other party is represented by the contractual notional amount of those commitments.
- c) The Bank accounts for items drawn on other banks in memorandum accounts until such time as the related item clears or is accepted. In the opinion of management, the Bank's risk of loss on these clearing transactions is not significant as the transactions primarily relate to collections on behalf of third parties.
- d) Mainly includes the amounts given as collateral for transactions held by customers.

31. Commencement of summary proceedings

I – Pending Summary Proceedings:

1. 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; Mario Blejer; 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. Efkhonian 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 BCRA 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.

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

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imposing an administrative penalty. The estimated and provisioned as of December 31, 2015 amounts to Ps. 20.

2. On December 29, 2014, the Bank was notified of the Resolution passed by the Superintendent of Financial and Foreign Exchange Institutions No. 824 dated December 1, 2014 ordering the start of Summary Proceedings No. 6086 on Foreign Exchange Matters (File 101.534/11) against Banco Hipotecario S.A. and a former Manager (Mr. Gabriel Cambiasso) and five assistants (Claudio H. Martin; Daniel J. Sagray; Rubén E. Perón; Marcelo D. Buzetti and Pablo E. Pizarro) at the Cordoba Branch, in the terms of Section 8 of the Foreign Exchange Criminal Regime Law (as signed into law pursuant to Decree No. 480/95). In the above-mentioned summary proceedings, an investigation is made in connection with excesses in the limits for selling foreign currency to two entities in the City of Cordoba (for a combined amount of US\$ 701,270), which allegedly violate the provisions of Communication "A" 5085, paragraph 4.2.1.

On July 3, 2015 the writ containing the defenses and arguments was filed with the Central Bank and the relevant evidence was offered.

In the legal counsel's opinion, at the current stage of the proceedings there are legal and factual arguments that generate reasonable expectations that the physical persons named defendants will be acquitted. For such reason, no allowances have been created in this regard.

3. On August 11, 2015, we were notified of Resolution No. 76/15 adopted by the chairman of the Unidad de Información Financiera, which initiated a summary proceeding (sumario) against us, our Board of Directors (Eduardo Sergio Elsztain, Mario Blejer, Diego Luis Bossio, Mariana González, Edgardo Luis José Fornero, Ada Mercedes Maza, Mauricio Elías Wior, Saúl Zang, Ernesto Manuel Viñes, Gabriel Adolfo Gregorio Reznik, Jacobo Julio Dreizen, Pablo Daniel Vergara del Carril and Carlos Bernardo Pisula) and our compliance officer for an alleged violation to section 21 a) of Law No.25,246 and to Resolution No.121/11. The UIF initiated the proceeding after an audit by the Central Bank in 2013 detected certain weaknesses in our internal anti-money laundering controls. As of the date of this offering memorandum, we have not established any provisions in connection with this proceeding. According to that resolution, the Bank and its directors would have incurred - "prima facie" - in certain defaults related to the way customers are identified, monitoring parameters, the definition of the risk matrix and the updating procedures of background and profiles of customer, among others.

On 23 September 2015 releases and defenses were presented to the UIF and informative computer expert and testimonial evidence were offered. Due to history of in similar cases in the UIF, it is estimated that there is probability of a fine in administrative proceedings. The estimated and provisioned as of December 31, 2015 amounts to Ps. 20.

5. Banco de Crédito y Securitización S.A. has been notified of Resolution No. 401 dated September 7, 2012 handed down by the BCRA's Superintendent of Financial and Exchange Institutions, ordering to start summary proceedings against this Bank and its Chairman, Mr. Eduardo S. Elsztain, due to the late filing of documentation related to the appointment of the Bank's authorities. On October 9, 2012, the defenses and arguments of the Bank's rights were filed. Subsequently, the Bank was notified of Resolution No. 729 dated October 23, 2013 which imposed on the Bank and its president Punishment of Call of Care by Article 41 paragraph 1 of the Law of Financial Institutions.

Through such resolution determined fines of Ps. 320 and Ps. 393 to the bank and its directors (Eduardo S. Elsztain and Ernesto M. Viñes), respectively. Such amounts were charged as a loss as of December 31, 2015.

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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).

6. On November 25, 2014, Tarshop S.A. was notified by the Financial Information Unit that summary proceedings had been filed, identified under Resolution No. 234/14, for potential formal violations derived from the alleged non-compliance with Section 21, paragraph a) of Law 25,246 and UIF Resolutions No. 27/11 and 2/12. Summonses were sent to the Company (Tarshop S.A.), its Compliance Officer (Mauricio Elías Wior) and the Directors then in office (Messrs. Eduardo Sergio Elsztain, Saúl Zang, Marcelo Gustavo Cufre and Fernando Sergio Rubín) for them to file their defenses. In the legal counsel’s opinion, at the current stage of the proceedings and based on the precedents existing at the UIF in similar cases, it is likely that a penalty be imposed under the scope of the administrative proceedings. For such reason, allowances for Ps. 360 have been recorded in this regard.

II –Summary Proceedings pending Court Decision

1. On May 4, 2012 the Bank was notified of Resolution No. 186, dated April 25, 2012 issued by the Superintendent of Financial and Foreign Exchange Institutions whereby Summary Proceedings No. 4976 on Foreign Exchange Matters were commenced against the Bank, its directors (Messrs. Eduardo S. Elsztain; Gabriel G. Reznik; Pablo D. Vergara del Carril; Ernesto M. Viñes; Saul Zang; Carlos B. Písula; Edgardo L. Fornero; Jacobo J. Dreizen); former directors (Ms. Clarisa D. Lifsic de Estol; Messrs. Julio A. Macchi; Federico L. Bensadón; and Jorge M. Grouman) and the former Finance Manager Gabriel G. Saidón, under section 8 of the Foreign Exchange Criminal Regime Law (as signed into law by Decree No. 480/95).

In such proceedings, charges were pressed for alleged violations of the provisions of Communications “A” 3640, 3645, 4347 and supplementary rules, due to the acquisition of good delivery silver bars during the 2003-2006 period with funds arising from its General Exchange Position.

The defenses to which the Bank is entitled were raised in due time. Within the period granted to such end, the Bank and the other defendants produced the evidence previously offered. As soon as that stage in the procedure came to a conclusion, the counsel for the defense presented their closing arguments and in August 2014, the Argentine Central Bank sent the case file to the competent court (therefore, at present the case is being heard by the Court with Jurisdiction over Criminal Economic Matters No. 7 presided by Judge Juan Galvan Greenway). The last procedural measure issued was the call to sentence.

In the legal counsel’s opinion, at the current status of the proceedings, there are legal and factual arguments that generate reasonable expectations that the physical persons named defendants and Banco Hipotecario S.A. will be acquitted and that therefore, there are low chances that the Bank will be subject to the economic sanctions set forth by the Foreign Exchange Criminal Regime Law (*Ley de Régimen Penal Cambiario*). For such reason, no allowances have been created in this regard.

2. On October 7, 2014, BHSA was notified of Resolution No. 513 dated August 16, 2014 handed down by the Superintendent of Financial and Foreign Exchange Institutions in the summary proceedings in financial matters No. 1365 (on grounds of alleged failure to comply with the minimum requirements in terms of internal controls under Communication “A” 2525) whereby Banco Hipotecario S.A. was imposed a fine for Ps. 112 and its directors (Messrs. Pablo D. Vergara del Carril; Carlos B. Písula, Eduardo S. Elsztain, Jacobo J. Dreizen, Gabriel G. Reznik;

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Edgardo L. Fornero; Ernesto M. Viñes; and Saul Zang) and former directors (Ms. Clarisa D. Lifsic de Estol and Messrs. Jorge L. March; and Federico L. Bensadón) were fined for different amounts.

As required by Section 42 of the Law of Financial Institutions, the fines were paid and the relevant appeal was lodged with the National Appellate Court with Federal Jurisdiction over Contentious and Administrative Matters against the above-mentioned resolution. The fine for Ps. 112 paid by the Bank and was booked in an allowance.

3. On October 31, 2014, BHSA 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 one hand, with the violation of the rules governing financial aid to the Non-Financial Public Sector, with excess over the limits of fractioned exposure to credit risk from the non-financial public sector, with excess in the allocation of assets to guarantee, with failure to satisfy minimum capital requirements and with 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 to the directors recently elected by the shareholders’ meetings.

Resolution No. 685 then fined Banco Hipotecario S.A. with Ps.4,040 and also fined BHSA’s 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. Efkhianian and former managers (Gabriel G. Saidón and Enrique L. Benitez) for an aggregate amount of Ps.51,581.8. 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 BCRA 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 BCRA for collection of the fines.

Upon being notified of the resolution handed down on June 30 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. 57,671.9. Out this amount, Ps. 53,631.9 were computed as losses for this period in the manner described in the Minutes of the Meeting held by Banco Hipotecario S.A.’s Executive Committee on July 2, 2015 and in the Minutes of the Board Meeting held on July 15, 2015, and Ps. 4,040 were covered by a provision made in the previous fiscal year.

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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.

4. On September 13, 2013, the Bank was notified of Resolution No. 611 handed down by the Superintendent of Financial and Foreign Exchange Institutions, whereby it ordered to commence summary proceedings against the Bank and the manager Christian Giummarra and the former manager Aixa Manelli (Summary Proceedings No. 5469 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\$ 39.9 thousand and Euro 1.1 thousand. The relevant defenses and arguments have been filed and evidence has been offered in support of all the defendants subject to the summary proceedings. Due to its related subject matter, the record of this case was joined with Summary Proceedings No. 5529 on Foreign Exchange Matters (File 101,327/10). Therefore, its procedural status is described together with the latter.
5. On October 8, 2013, the Bank was notified of Resolution No. 720 handed down by the Superintendent of Financial and Foreign Exchange Institutions, ordering to commence summary proceedings against the Bank and its Organization and Procedures Manager, Mr. Christian Giummarra, and the former Systems Manager, Ms. Aixa Manelli (Summary Proceedings No. 5529 on Foreign Exchange Matters) in accordance with Section 8 of the Criminal Foreign Exchange Regime Law (*Ley de Régimen Penal Cambiario*) –as amended by Decree 480/95– 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\$ 86.4 thousand. The relevant defenses and arguments were filed and evidence was offered in support of all the defendants subject to the summary proceedings. The BCRA opened the discovery stage, and evidence was produced in due time. Once the discovery stage came to a conclusion, the attorneys submitted their closing arguments. In mid- September 2015 the summary in which both actions were accumulated) was sent by the Central Bank to Economic Criminal Justice for sentencing. Involving the Court with jurisdiction over Criminal Economic Matters No.2 (Dr. Pablo Yadarola) - Secretary No. 3 (Dr. Fernando Stockfisz) .

In the legal counsel's opinion, at the current status of the proceedings, there are legal and factual arguments that generate reasonable expectations that the physical persons named defendants and Banco Hipotecario S.A. will be acquitted and that therefore, there are low chances that the Bank will be subject to the economic sanctions set forth by the Criminal Foreign Exchange Regime Law (*Ley de Régimen Penal Cambiario*). For such reason, no allowances have been created in this regard.

6. On August 26, 2014, the Bank was notified of the Resolution passed by the Superintendent of Financial and Foreign Exchange Institutions No. 416 dated August 7, 2014 ordering the start of Summary Proceedings No. 5843 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). In the above-mentioned summary proceedings, Banco Hipotecario, its directors (Messrs. Eduardo S. Elstain; Jacobo J. Dreizen; Edgardo L. Fornero; Carlos B. Písula; Gabriel G. Reznik; Pablo D. Vergara del Carril; Ernesto M. Viñes; Saul Zang; and Mauricio E. Wior) and former directors (Ms. Clarisa D. Lifsic de Estol and Mr. Federico L. Bensadón), and two former managers (Messrs. Gabriel G. Saidón and Enrique L. Benitez), are charged with failure to comply with the rules

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disclosed by Communication “A” 3471 (paragraphs 2 and 3) and by Communication “A” 4805 (Paragraph 2.2.) due to certain transfers of currency made abroad between August and October 2008 to guarantee the “CER Swap Linked to PG08 and External Debt” swap transaction for a total of US\$ 45,968 thousand, without the authorization of the Argentine Central Bank. BHSA has been allowed to review the proceedings (case file No. 100.308/10) which are being handled by the Argentine Central Bank’s Department of Foreign Exchange Contentious Matters. The relevant defenses and arguments were filed in support of the subjects to the summary proceedings. The BCRA opened the discovery stage on March 16, 2015. Evidence was produced and the counsels for the defense’s allegations were raised in due time. Upon conclusion of the administrative stage of the proceedings, the case file was sent to the Courts with Jurisdiction over Criminal Economic Matters. On November 18, 2015, the Court with Jurisdiction over Criminal Economic Matters No. 3, presided by Dr. Rafael E. Caputo, Clerk’s Office No. 5, determined that it lacked jurisdiction to hear the case; therefore, the proceedings were forwarded to the Court with Jurisdiction over Criminal Economic Matters No. 2, which has still not determined whether it has competent jurisdiction

In the legal counsel’s opinion, at the current stage of the proceedings there are legal and factual arguments that generate reasonable expectations that the physical persons named defendants and Banco Hipotecario S.A. will be acquitted and that therefore, there are low chances that the Bank will be subject to the economic sanctions set forth by the Criminal Foreign Exchange Regime Law (*Ley de Régimen Penal Cambiario*). For such reason, no allowances have been created in this regard.

III – Summary Proceedings in which a Court Decision has been Rendered (concluded)

Under Resolution No. 286 dated July 2, 2010, issued by the Superintendent of Financial and Foreign Exchange Institutions, summary proceedings were commenced against the Bank and its directors (Summary Proceedings No. 4364 on Foreign Exchange Matters) under section 8 of the Foreign Exchange Criminal Regime Law (as signed into law by Decree No. 480/95).

Under the above-mentioned proceedings, charges were pressed for violation of certain provisions under Communications “A” 4087 and 4177 concerning early repayments of restructured external debt for US\$ 91,420,135 and Euros 2,803,965 in the period February 2004 through June 2005. The relevant defenses and arguments in support of the Bank’s position were filed in due course. Within the period granted for the production of evidence, the Bank and the other defendants produced the evidence previously offered. As soon as that stage in the procedure came to a conclusion, the counsel for the defense presented their closing arguments and in August 2014, the Argentine Central Bank sent the case file to the competent court (Court with Jurisdiction over Criminal Economic Matters No. 5 presided by Judge Jorge Brugo).

Through his judgment dated December 12, 2014, the above mentioned Judge decided that Banco Hipotecario S.A. was exempt from liability and acquitted directors: Messrs. Eduardo S. Elsztain; Gabriel G. Reznik; Pablo Vergara del Carril; Ernesto M. Viñes; Carlos B. Písula; Edgardo L. Fornero; Saúl Zang; Jacobo J. Dreizen; former directors: Ms. Clarisa D. Lifsic de Estol; and Messrs. Miguel A. Kiguel; Julio A. Macchi; Federico L. Bensadón; Guillermo H. Sorondo and Jorge Miguel Grouman; and the Area Manager Gustavo D. Efkhonian; Manager Daniel H. Fittipaldi; former general sub-manager Gustavo D. Chiera; former managers Gabriel G. Saidón; Carlos Gonzalez Pagano and Marcelo C. Icikson; and Mr. Miguel J. Diaz, named defendants to those proceedings.

In response to the appeal filed by the State Attorney against the judgment, Panel “A” of the Appellate Court with Jurisdiction over Criminal Economic Matters handed down a decision on July 17, 2015 confirming the appealed resolution to the extent that it acquits Banco Hipotecario S.A., Clarisa Lifsic de Estol, Eduardo S. Elsztain; Gabriel G. Reznik; Pablo Vergara del Carril; Ernesto M. Viñes; Carlos B. Písula; Edgardo L. Fornero; Saúl Zang; Jacobo J. Dreizen; Miguel A. Kiguel; Julio A. Macchi;

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Federico L. Bensadón; Guillermo H. Sorondo and Jorge Miguel Grouman; Gustavo D. Efkhonian; Daniel H. Fittipaldi; Gustavo D. Chiera; Gabriel G. Saidón; Carlos Gonzalez Pagano; Marcelo C. Icikson; and Miguel J. Diaz without any award of costs.

The General Attorney for Criminal Economic Matters not filed an extraordinary appeal against that resolution, so that the acquittal decision became firm and definitive.

32. 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 State, 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 of the placement of the Trust Bonds (Valores Representativos de Deuda or VRDs) and cash contributions by the Argentine State 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 him;
- 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;
- insure 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.

In compliance with Communication "A" 5392, the Bank has capitalized mortgage loan origination expenses under this program (see note 2.10.).

33. Capital Market Law

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On December 27, 2012, the Capital Market Law No. 26,831 was promulgated, considering a comprehensive amendment to the public offering regime set forth by Law No. 17,811.

Insofar as concerns the matters related to the Company's business, this law broadens the regulatory powers of the Argentine Government in connection with the public offering of securities, through the Argentine Securities Commission (CNV), and concentrates in this agency the powers of authorization, supervision and oversight, disciplinary authority and regulation of all capital market players; further, it establishes that intermediary agents willing to deal in a securities market are no longer required to be members thereof, thus allowing the entry of other participants, and delegates to the CNV the power to authorize, register and regulate the various categories of agents.

On August 1, 2013, Decree 1023/2013, partially regulating the Capital Markets Law, was published in the Official Gazette, and on September 9, 2013, General Resolution No. 622 of the CNV, approving the related regulations, was published in the Official Gazette.

These regulations implement a register of agents that participate in the capital market. To take part in each of the activities regulated by this resolution, agents had to be entered in that register in such capacity by March 1, 2014.

For those agents who have applied for registration with the final registry before March 1, 2014 to comply with all the requirements, on February 7, 2014, the Argentine Securities Commission (CNV) extended the term until December 31, 2014. On June 23, 2014 we were notified by Mercado Abierto Electrónico S.A. that CNV mandated that the Agents registered with MAE S.A. who have proceedings underway before CNV for registration as Agent in any of the categories authorized by currently applicable rules and regulations may continue to do business normally up and until they start operating in the new Agent category as per the CNV rules (N.T.2013)

In turn, pursuant to CNV Resolution No. 17,392 dated June 26, 2014, the Bank was registered with the Registry of Financial Trustees prescribed by Sections 6 and 7 of Chapter IV, Title V of the Rules, under No. 57. And, on September 19, 2014, pursuant to CNV Resolution No. 2122, the Bank has been registered as Settlement and Clearing Agent and Comprehensive Trading Agent No. 40.

Pursuant to the provisions of Section 45 of Law 26,831 and paragraph a), Section 20, Article VI, Chapter II, Title VII, and subsection j) of Section 7, Article IV, Chapter IV, Title V of Resolution No.622 of the CNV, it is made known that Banco Hipotecario's minimum capital 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 capital was duly paid in as of the closing of the period and the liquid balancing account is identified as BONAC 2016 – AL16 (Government security carried at fair market value).

On October 22, 2014, the Board of Directors of Mercado de Valores de Buenos Aires S.A. approved the registration of Banco Hipotecario S.A. in Mercado de Valores de Buenos Aires S.A.'s Registry of Agents as Settlement and Clearing Agent and Trading Agent – Comprehensive (ALyC and AN as per the Spanish acronyms).

On December 23, 2014, BHSA was authorized to operate under the provisions of Merval Communication No. 15594.

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 the composition of BACS' equity as of

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the end of the period was correct and that the liquidity requirement takes the form of Peso-denominated Lebac.

As of the date of these financial statements, BH Valores SA has been approved by CNV as a Settlement and Clearing Agent in its own name under Registration Number 189 in the terms of CNV's General Resolution No. 622.

According to the minimum requirements laid down, BH Valores S.A.'s minimum shareholders' equity exceeds the amount prescribed by CNV's General Resolution No. 622 and its composition is correct. As to the liquidity requirements, they have been satisfied in the form of a deposit of the Government security called Bono de la Nación Argentina \$ Badlar Privada + 200 bps. Vto. 2017, as discussed in Exhibit II to the Company's financial statements.

In view of the latest tax, regulatory and operational developments that have modified BH Valores S.A.'s commercial strategy and decreased the competitive advantages of running such a business, the Board of Directors of BH Valores S.A. has, as of May 6, 2015, decided to substantially diminish the volume of operations with an eye towards suspending the operations of Sociedad BH Valores S.A. in the future to prevent two structures that are presently highly similar in terms of their functions and have been rendered redundant within the same conglomerate from overlapping.

34. Resolutions issued by the Argentine Central Bank

Credit Line for Productive Investments

Under Communication "A" 5319 dated July 5, 2012, the BCRA approved the implementation of a new credit line to be extended by financial institutions, intended to promote productive investments consisting of the purchase of capital goods and the construction of the facilities necessary for producing goods and services. Generally, financial institutions accounting for more than 1% of the total deposits in the financial system and institutions operating as financial agents of the provinces are required to allocate to this new credit line 5% of the total amount of deposits from the private sector held as of June 2012. In all cases, 50% of the loan amounts must be granted to companies qualifying as SMEs.

Under successive BCRA communications, the quotas allocable by financial institutions under this line were expanded and supplemented semi-annually under similar conditions as those set forth in the previous paragraph, i.e., a minimum allocation of 5%/5.5% of the amount of deposits from the non-financial private sector, terms and conditions including interest rates ranging from 15/19% per annum and maturities of up to 36 months.

Under Communication "A" 5771, the BCRA resolved to extend the Credit Line for Productive Investments over the second half of 2015. Therefore, the financial institutions subject to the provisions of this circular must allocate to this credit line an amount of at least 7.50% of the non-financial private sector deposits in pesos, calculated taking into account the monthly average daily balances of May 2015. 100% of the quota must be granted to SMEs, excluding those engaged in financial intermediation and insurance services, or services related to gambling and betting activities. The loans must be fully agreed as of December 31, 2015, and may be disbursed in a single drawing until that date or on a staggered basis until June 30, 2016, in the latter case only when warranted due to the features of the project subject to financing. Moreover, as of December 31, 2015, the loans agreed should amount to at least 30% of the total amount of the second tranche of the 2015 Quota. The highest interest rate applicable in this tranche is a fixed nominal annual rate of 18% per annum for the first 36 months.

Under Communication "A" 5874 dated December 31, 2015, the Argentine Central Bank revised the name of the credit line in effect since 2012 and started to publish the "Credit line for production and financial inclusion purposes".

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The new line will become effective on the first half of 2016. The financial institutions subject to the provisions of this circular must record a lending balance under this credit line amounting to at least 14% of the deposits from the non-financial private sector in pesos, calculated taking into account the monthly average daily balances of November 2015. At least 75% of the quota must be granted to SMEs. In calculating the quota, the average daily balances of outstanding loans during the first half of 2016 will be considered. The highest rate applicable under this line should be a fixed nominal rate of 22% per annum for the first 36 months, except for the purchase of portfolio and mortgage loans and loans for the acquisition of rights over trusts for the construction of real property to individuals, which will be a mixed interest rate. For clients who do not qualify as SMEs, the rate will be freely agreed upon.

At the closing of these financial statements BHSA had recorded Ps. 870,718 as principal and interest under BHSA's assets in connection with this credit line.

Compliance with rules on term deposits and investments. Conditions governing interest rates on term deposits

Pursuant to its Communication "A" 5781, the Argentine Central Bank raised the floor of the interest rates payable on term deposits and the maximum amount of the placements that may obtain such benefit. The rest of the transactions shall be agreed upon freely, that is, without the involvement of the Argentine Central Bank.

It has been determined that starting on July 27, 2015 the rates can't be less than the product arising from the last reference interest rate and a coefficient according to the original term of the imposition, as follows:

- from 30 to 44 days: 0.91
- from 45 to 59 days: 0.93
- from 60 to 89 days: 0.97
- from 90 to 119 days: 0.97
- from 120 to 179 days: 0.98
- from 180 days or more: 0.99

These minimum rates apply to all Peso-denominated term deposits of up to Ps.1,000 on behalf of holders who are human and / or legal persons.

Finally, the Argentine Central Bank provides that failure to comply with the minimum rate level shall result in an increase in minimum cash requirements in Pesos for an amount equivalent to all relevant term deposits for the month following that when the failure to comply takes place. No offsets among term deposits are allowed. In addition to the foregoing, summary proceedings shall be commenced in accordance with the guidelines laid down by the Superintendent of Financial and Foreign Exchange Institutions.

Interest rates on credit operations. Financing subject to interest rate regulation by the Central Bank.

Under Communication "A" 5590 dated June 10, 2014, the BCRA adopted a system of benchmark interest rates for personal and pledge loans to individuals not qualifying as SMEs and established a ceiling for these kinds of loans that may not exceed the product arising from multiplying the 90-day LEBACs' cut-off interest rate by a multiplier ranging from 1.25 to 2.0, depending on the kind of loan and Bank Group. To this end, banks are divided into:

- Group I: financial institutions operating as financial agents of the national, provincial and/or municipal governments and/or other institutions accounting for at least 1% of the total deposits from the non-financial private sector; and

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- Group II; the remaining institutions.

The BCRA publishes the “benchmark interest rate” to be applied by the financial institutions in each of these groups to each type of loans (personal loans, pledge loans and portfolio purchases). The rates applied by each institution to each loan within the lines mentioned above may not exceed the “benchmark interest rate” reported by the BCRA.

On December 17, 2015, under Communication "A" 5853 the BCRA repealed the above mentioned Communications and thus eliminated any regulation on rates, for both lending transactions and term deposits. This new rule will become applicable to any loans agreed upon from December 17, 2015 onwards.

However, the BCRA provides that financial institutions shall disclose the total financial cost of lending transactions (by displaying it at their offices and in press ads) subject to specific typeface size requirements.

Moreover, it establishes a timetable for violations detected until December 31, 2015 for transactions subject to regulated interest rates, i.e., those outstanding as of December 16, 2015; and for violations detected from January 1, 2016 onwards, the provisions set forth in Communication “A” 5849 shall apply.

The mechanism provided in such rule imposed the obligation to reimburse the excess amount collected and any expenses incurred by clients in filing their claims.

Protection granted to users of financial services

Under Communication “A” 5685 dated December 23, 2014, the BCRA ordered that any new commissions (commissions for new products and/or services intended to be marketed) and increases in commissions must obtain the BCRA’s previous authorization. Changes in charges shall be reported as well. In the case of basic financial products and/or services, the financial institutions and non-financial companies issuers of credit cards shall meet several requirements and procedures and submit various explanations upon applying for such authorization.

In addition, Communication “A” 5715 dated February 13, 2015 imposes a new monthly reporting duty that requires disclosing the amounts of commissions and/or charges collected for each product or service offered to individuals in their capacities as final users and the number of transactions, movements or services rendered during the month.

Lastly, the Argentine Central Bank approved a new methodology to find a solution for the requests of increases in the commissions for financial services and products by the entities that provide them. This methodology includes both basic and non-basic services, except for high-end products, whose increases shall be vetoed if considered abusive. Increases in commissions shall be subject to a maximum 20 per cent limit for all types of services and products.

Assignment of financial and foreign exchange institutions’ foreign currency position

On December 17, 2015 under Communication "A " 5828, the BCRA provided that financial institutions authorized to carry out foreign exchange transactions, should sell to the BCRA their positive foreign currency position as of the closing of business on December 16, 2015 valued at reference exchange rate prevailing on such date, and could then repurchase it in full, on December 17, 18 or 21, 2015 at the reference exchange rate prevailing on the repurchase date.

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In order to exercise this option, the institutions filed a notice signed by their highest local authority by 10 a.m. on the selected repurchase date, sent to the General Transactions Sub-Management Department, giving express notice of their decision to effect such repurchase.

35. BHN Inversión S.A.'s dividend distribution

On October 26, 2015 the Extraordinary General Shareholders' unanimously approved the dividend distribution of Ps. 332,000 with reversal of the balance of the reserve for future investments authorizing the Board of Directors to carry out the aforementioned distribution in cash and / or securities.

On November 3, 2015 the bank received securities issued by the Central Bank for Ps. 331,999.

36. BACS Banco de Crédito y Securitización S.A. - Representations before the Central Bank to perform the activities planned for a commercial bank of first grade

On October 20, 2015 the Extraordinary General Shareholders' unanimously approved to:

- Delegate in the Board of Directors the broadest powers to take all steps, events and presentations necessary for the purposes of processing the license to operate as a commercial bank of first grade to the Central Bank and also prepare, approve, manage and execute all documentation -whether public or private instrument- that is required by the institution for the purpose of the authorization, and
- Authorize the Board of Directors to delegate the powers mentioned in the preceding point in one or more of its members or one or more of the managers of the company

37. Supplementary services to the financial business

Pursuant to Communication "A" 5700, the Argentine Central Bank included changes in the rules on "Supplementary services to the financial business and permitted activities", "Consolidated supervision" and "Minimum capitals of financial institutions".

As concerns the scope of the supplementary services, it is allowed to hold interests in the stock capital of companies engaged in the development of two of the subject activities to the extent that, in the opinion of the SEFyC, both activities are economically related to each other and there are no legal inconsistencies that would prevent them from being developed jointly.

The subject activities include the issuance of credit, debit and similar cards. This notwithstanding, provided that 25% of the total financing amount as of the closing date of each month is not exceeded, loans not subject to the credit card law may be extended to financial services users, in which cases the provisions on "Interest rates applicable to lending transactions" shall be complied with.

On the other hand, changes are introduced in the calculation of the regulatory capital (responsabilidad patrimonial computable) to reflect the impact of these amendments.

As a result of such Communication, on March 16, 2015, Tarshop SA's General Extraordinary Shareholders' Meeting approved an amendment to its corporate purpose. According to such amendment, the company may grant and market consumer loans and consumer credits and financing for users of financial services pursuant to the Argentine Central Bank's rules and regulations, handle the collection of utility bills, credits and similar items, render payroll and supplier payment and revenue collection services. As of the date of these interim Financial Statements, the Bank is awaiting the BCRA's authorization to implement such amendment.

38. Subsequent events

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The following table shows the amount, interest rate and maturity date of each series issued after December 31, 2015:

	<u>Issue date</u>	<u>Maturity date</u>		<u>Annual interest rate</u>
Banco Hipotecario				
Series XXXIV (Ps. 264,030)	02/10/16	08/10/17	b	Badlar+400bps
Series XXXV (Ps. 235,970)	02/10/16	02/10/19	b	Badlar+499bps
BACS Banco de Crédito y Securitización				
Series VII (Ps. 142,602)	02/18/16	11/18/17	b	Badlar+475bps
Tarshop				
Series XXVI (Ps. 156,972)	01/26/16	07/26/17	b	Badlar+650bps

- (a) Fixed interest rate
(b) Variable interest rate



Independent Auditor's Report

To the Board of Directors and Shareholders of
Banco Hipotecario S.A.

We have reviewed the accompanying consolidated interim balance sheet of Banco Hipotecario S.A. and its subsidiaries as of June 30, 2016 and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for the six-month period ended June 30, 2017 and 2016.

Management's Responsibility for the Consolidated Interim Financial Information

The Company's management is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting rules prescribed by the *Banco Central de la República Argentina* (the "Argentine Central Bank"); this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting rules prescribed by the Argentine Central Bank.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in Argentina and performed the auditing procedures required by the Argentine Central Bank applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Argentina, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

A handwritten signature in black ink, appearing to be a stylized 'V' or similar mark, located to the left of the contact information.

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Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in accordance with accounting rules prescribed by the Argentine Central Bank.

Emphasis of Matter

As described in Note 1.b. to the consolidated interim financial statements, the consolidated interim financial statements have been prepared in accordance with accounting rules prescribed by the Argentine Central Bank, which differ in certain respects from, and is a comprehensive basis of accounting other than, Argentine generally accepted accounting principles applicable to enterprises in general.

Also as described in Note 3 to the consolidated interim financial statements, in December 2016 the Argentine Central Bank issued Communication "A" 6114, which established the guidelines that should be considered by financial institutions for the adoption of International Financial Reporting Standards ("IFRS") for reporting purposes as from January 1, 2018. The Bank is currently undertaking a full review of their accounting systems in preparation for their timely adoption of this accounting framework.

Buenos Aires, Argentina
August 10, 2017

Price Waterhouse & Co S.R.L.


Diego L. Sisto
Partner

BANCO HIPOTECARIO SA AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEET

As of June 30, 2017 and December 31, 2016

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	June 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks		
Cash.....	Ps. 896,186	Ps 756,704
Financial institutions and Correspondents.....	2,539,117	6,431,575
Argentine Central Bank (B.C.R.A.).....	2,380,055	5,355,489
Other domestic institutions.....	92,332	15,181
Other foreign institutions.....	66,730	1,060,905
	3,435,303	7,188,279
Government and corporate securities (Note 5)		
Holdings booked at fair market value.....	3,131,566	2,522,425
Holdings booked at cost plus return.....	718,323	1,017,085
Investments in listed corporate securities.....	637,853	352,854
Securities issued by the BCRA.....	3,606,019	1,116,910
Allowances	(11,662)	(11,662)
	8,082,099	4,997,612
Loans		
To the non-financial public sector.....	129,474	153,032
To the financial sector.....	518,403	636,950
Interfinancial (call granted).....	130,000	50,000
Other loans to domestic financial entities.....	364,120	555,726
Accrued interest, adjustments and quotation differences receivable.....	24,283	31,224
To the non-financial private sector and foreign residents.....	31,316,146	27,050,101
Overdrafts facilities.....	546,129	290,153
Promissory notes.....	933,292	687,965
Mortgage loans.....	3,168,830	2,744,734
Pledge loans.....	236,800	640,365
Personal loans.....	5,784,096	4,611,052
Credit card loans.....	13,178,322	12,663,403
Unallocated collections.....	(43,274)	(1,166)
Other (Note 6).....	7,282,108	5,166,467
Accrued interest and quotation differences receivable.....	278,622	293,006
Documented interest.....	(48,779)	(45,878)
Allowances (Note 9).....	(796,546)	(676,141)
	31,167,477	27,163,942
Other receivables from financial transactions		
Argentine Central Bank.....	669,786	691,913
Amounts receivable for spot and forward sales to be settled.....	1,451,567	1,368,657
Securities to be received under spot and forward purchases to be settled.....	1,404,924	2,503,986
Negotiable obligations without quotation.....	298,611	322,118
Balances of forward transactions not yet settled without delivery of underlying asset.....	37,173	169,717
Others not included in the debtor classification regulations (Note 7).....	4,064,794	4,097,312
Others included in the debtor classification regulations	23,013	115,509
Accrued interest receivable included in the debtor classification regulations	6,326	7,110
Allowances.....	(13,219)	(14,190)
	7,942,975	9,262,132

BANCO HIPOTECARIO SA AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEET – (Continued)

As of June 30, 2017 and December 31, 2016

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	June 30, 2017	December 31, 2016
Assets under financial leases		
Receivables for financial leases.....	163,220	155,775
Accrued interest and adjustments receivable.....	2,950	3,087
Allowances.....	<u>(1,565)</u>	<u>(1,453)</u>
	164,605	157,409
Investments in other companies	103,120	101,020
Miscellaneous receivables		
Minimum presumed income tax – fiscal credit.....	202,506	97,447
Others (Note 8).....	1,879,554	1,886,759
Other accrued interest receivable.....	2,544	787
Allowances.....	<u>(10,470)</u>	<u>(10,811)</u>
	2,074,134	1,974,182
Bank premises and equipment (Note 10).....	437,640	390,228
Miscellaneous assets (Note 11).....	1,267,042	296,068
Intangible assets (Note 10)		
Goodwill.....	11,648	13,363
Organization and development expenses.....	<u>562,918</u>	<u>554,001</u>
	574,566	567,364
Items pending allocation.....	<u>12,897</u>	<u>9,874</u>
Total Assets	Ps. 55,261,858	Ps. 52,108,110

BANCO HIPOTECARIO SA AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEET – (Continued)
As of June 30, 2017 and December 31, 2016

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits (Note 12)		
Non-financial public sector..... Ps.	2,853,776	Ps. 2,536,836
Financial sector.....	6,676	6,394
Non-financial private sector and foreign residents.....	17,022,523	16,441,762
Current accounts.....	830,078	881,421
Savings accounts.....	4,099,010	3,329,855
Time deposits.....	10,542,773	10,613,088
Investment accounts.....	1,108,741	1,013,895
Others.....	238,943	318,055
Accrued interest and quotation differences payable.....	202,978	285,448
	19,882,975	18,984,992
Other liabilities from financial transactions		
Argentine Central bank.....	114	56
Other.....	114	56
Unsubordinated negotiable obligations (Note 16).....	18,703,557	16,018,680
Amounts payable under spot and forward purchases to be settled.....	1,356,764	2,295,724
Securities to be delivered under spot and forward sales to be settled.....	1,454,200	1,422,674
Loans received from domestic financial institutions.....	421,046	707,468
Interfinancial loans (call received).....	75,000	265,000
Other loans from domestic financial institutions.....	341,511	434,475
Accrued interest payable.....	4,535	7,993
Balances of forward transactions not yet settled without delivery of underlying asset.....	34,792	187,108
Others (Note 13).....	3,163,038	2,931,778
Accrued interest and quotation differences payable.....	620,274	623,850
	25,753,785	24,187,338
Miscellaneous liabilities		
Fees.....	79,976	55,270
Others (Note 14).....	2,158,979	2,154,603
Accrued interest and quotation differences payable.....	3,516	10,320
	2,242,471	2,220,193
Provisions (Note 15).....	348,821	325,847
Subordinated bonds (Note 17).....	-	136,838
Items pending allocation.....	52,031	38,967
Non-controlling interest	300,570	157,707
Total Liabilities	48,580,653	46,051,882
SHAREHOLDERS' EQUITY	6,681,205	6,056,228
Total Liabilities and Shareholders' Equity Ps.	55,261,858	Ps. 52,108,110

The accompanying notes are an integral part of these consolidated financial statements.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF INCOME

For the periods ended June 30, 2017 and 2016

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	<u>2017</u>	<u>2016</u>
Financial income		
Interest on cash and due from banks..... Ps.	144	Ps. 46
Interest on loans to the financial sector.....	49,553	28,517
Interest on overdraft facilities.....	49,127	126,754
Interest on promissory notes.....	81,400	58,918
Interest on mortgage loans.....	251,381	254,149
Interest on pledge loans.....	58,607	82,756
Interest on credit card loans.....	2,000,696	1,533,747
Interest on financial leases.....	20,518	16,117
Interest on other loans.....	1,480,374	1,060,513
Interest on other receivables for financial transactions.....	8,861	2,597
Net income from government and corporate securities.....	966,655	1,269,428
Adjustments from application of CER clause.....	4,770	8,730
Gold and foreign currency quotation differences...	7,420	-
Other (Note 21).....	351,773	301,243
	<u>5,331,279</u>	<u>4,743,515</u>
Financial expenses		
Interest on checking accounts deposits.....	9,777	1
Interest on saving accounts deposits.....	2,185	1,484
Interest on time deposits.....	1,002,058	1,645,178
Interest on interfinancial loans received.....	4,087	20,960
Interest on other loans from financial institutions...	50,185	71,959
Interest on other liabilities resulting from financial transactions.....	1,489,036	714,068
Interest on subordinated bonds.....	4,321	10,623
Other interest.....	108,231	189,846
Gold and foreign currency quotation differences...	18,793	188,601
Adjustments from application of CER clause.....	29,740	-
Contribution to the deposits security fund.....	16,297	44,761
Other (Note 21).....	705,689	389,175
	<u>3,440,399</u>	<u>3,276,656</u>
Gross intermediation margin..... Ps.	1,890,880	Ps. 1,466,859
Provision for loan losses (Note 9).....	379,680	200,792
Income from services		
Linked with lending transactions.....	1,560,420	844,863
Linked with borrowing transactions.....	115,587	80,735
Other commissions.....	14,562	9,259
Other (Note 22).....	1,232,210	1,323,816
	<u>2,922,960</u>	<u>2,258,673</u>

	<u>2017</u>		<u>2016</u>
Expenses for services			
Commissions.....	251,896		187,018
Other (Note 22).....	393,115		337,891
	<u>645,011</u>		<u>524,909</u>
Administrative expenses			
Personnel expenses.....	1,635,517		1,358,888
Directors' and Syndics' fees.....	73,472		47,746
Other fees (Note 23).....	273,327		268,920
Advertising expenses.....	52,326		66,153
Taxes.....	164,277		124,060
Depreciation of bank premises and equipment.....	50,301		32,789
Amortization of organization and development expenses.....	89,481		72,162
Other operating expenses (Note 23).....	367,828		287,053
Other.....	105,878		86,118
	<u>2,812,407</u>		<u>2,343,889</u>
Net income from financial transactions.....	Ps. 976,742	Ps.	655,942
Miscellaneous income			
Income from equity investments.....	24,081		23,767
Penalty interests.....	55,139		48,894
Loans recovered and allowances reversed.....	119,748		168,793
Other (Note 24).....	140,373		94,946
	<u>339,341</u>		<u>336,400</u>
Miscellaneous expenses			
Penalty interest and charges in favor of BCRA.....	1,432		228
Loan loss provision for miscellaneous receivables and other provisions.....	115,913		158,019
Depreciation and loss of miscellaneous assets.....	1,805		363
Amortization of goodwill.....	1,714		1,714
Other (Note 24).....	245,727		207,369
	<u>366,591</u>		<u>367,693</u>
Income before income taxes and non-controlling interest.....	Ps. 949,492	Ps.	624,649
Income taxes (Note 26).....	279,627		251,700
Non-controlling interest.....	(44,892)		2,393
Net income for the period.....	Ps. <u>624,973</u>	Ps.	<u>375,342</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the periods ended June 30, 2017 and 2016
(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	Common stock (Note 28)	Paid in capital (Note 28)	Treasury stock (Note 28)	Inflation adjustment of common stock (Note 28)	<u>Reserves</u>		Retained earnings
					Legal (Note 28)	Voluntary (Note 28)	
Balance as of December 3, 2014.....	Ps. 1,463,365	Ps. 834	Ps. 54,149	Ps. 699,601	Ps. 679,739	Ps. 949,247	Ps.
Distribution of dividends approved by the General Shareholders' Meeting	-	-	-	-	-	-	-
Retained earnings distribution approved by the General Shareholders' Meeting	-	-	-	-	109,994	103,218	-
Net income for the year	-	-	-	-	-	-	-
Balance as of December 31, 2015.....	Ps. 1,463,365	Ps. 834	Ps. 54,149	Ps. 699,601	Ps. 789,733	Ps. 1,052,465	Ps.
Retained earnings distribution approved by the General Shareholders' Meeting	-	-	-	-	217,163	-	-
Net income for the year	-	-	-	-	-	-	-
Balance as of December 31, 2016.....	Ps. 1,463,365	Ps. 834	Ps. 54,149	Ps. 699,601	Ps. 1,006,896	Ps. 1,052,465	Ps.
Retained earnings distribution approved by the General Shareholders' Meeting	-	-	-	-	123,066	-	-
Net income for the period	-	-	-	-	-	-	-
Balance as of June 30, 2017.....	Ps. 1,463,365	Ps. 834	Ps. 54,149	Ps. 699,601	Ps. 1,129,962	Ps. 1,052,465	Ps.

The accompanying notes are an integral part of these consolidated financial statements

BANCO HIPOTECARIO SA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the periods ended June 30, 2017 and 2016

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

		2017		2016
Cash at beginning of period.....	Ps.	7,188,279	Ps.	6,378,793
Cash at period end.....		3,435,303		3,301,840
Net increase / (decrease) in cash.....	Ps.	(3,752,976)	Ps.	(3,076,953)
 <u>Causes of change changes</u>				
Operating activities				
Net collection / (payment) on:				
Government and corporate securities.....		(3,084,487)		176,763
Loans				
To the financial sector.....		118,547		(118,020)
To the non-financial public sector		23,558		(274,647)
To the non-financial private sector and foreign residents.....		(4,266,046)		(1,149,284)
Other receivables from financial transactions.....		2,335,309		(3,100,939)
Deposits				
To the financial sector.....		-		-
To the non-financial public sector		316,940		(3,285,089)
To the non-financial private sector and foreign residents.....		(580,761)		688,385
Other (except for liabilities under financing activities).....		(2,025,922)		2,145,930
Collections linked with income from services.....		2,924,197		2,258,673
Payments linked with expenses for services.....		(645,011)		(524,909)
Administrative expenses paid.....		(2,953,426)		(2,448,840)
Collection net of penalty interest.....		55,139		48,894
Payment of organization and development expenses.....		(7,202)		(74,536)
Other (payments) linked to miscellaneous income and expenses.....		138,130		(110,674)
Net collection / (Payment) from other operating activities.....		377,031		(551,630)
Net cash flow (used in) operating activities.....	Ps.	(7,274,004)	Ps.	(6,319,923)
 Investment activities:				
Net payment on bank premises and equipment.....		(1,018,386)		(262,635)
Payment of dividends.....		-		-
Net cash flow (used in) by investment activities.....	Ps.	(1,018,386)	Ps.	(262,635)
 Financing activities:				
Collections on unsubordinated negotiable obligations.....		2,684,877		2,207,994
Issue of subordinated bonds.....		-		10,623
Net cash flow originated by financing activities.....	Ps.	2,684,877	Ps.	2,218,617
Financial gain on holding of cash and cash equivalent (including interest and monetary results).....		1,854,537		1,286,988
Net increase / (decrease) in cash.....	Ps.	(3,752,976)	Ps.	(3,076,953)

The accompanying notes are an integral part of these consolidated financial statements.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the period ended June 30, 2017, in comparative format with the Balance Sheet as of December 31, 2016
and the Statement of Income, Statement of Changes in Shareholders' equity and Statement of Cash Flows
as of June 30, 2016

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

1. General

a. Description of business

Banco Hipotecario SA (herein after referred to as the “Bank” or “BHSA”), is a commercial bank, organized under the laws of Argentina.

The Bank historically has provided general banking services, focused on individual residential mortgage loans and construction-project loans directly to customers as well as indirectly through selected banks and other financial intermediaries throughout Argentina. In 2004, as part of its business diversification strategy, the Bank expanded its product offerings, beginning to offer personal loans, credit card loans and also engaging in mortgage loan securitizations, mortgage loan servicing, other corporate loans and insurance in connection with its lending activities.

b. Basis of presentation

The consolidated financial statements of the Bank have been prepared in accordance with the rules of Banco Central de la República Argentina (“Argentine Central Bank” or “BCRA”) which prescribe the accounting reporting and disclosure requirements for banks and financial institutions in Argentina (“Argentine Banking GAAP”). These rules differ in certain respects from generally accepted accounting principles in Argentina (“Argentine GAAP”) applicable to enterprises in general.

Certain reclassifications of prior period’s information have been made to conform to the current period presentation. Such reclassifications do not have a significant impact on the Bank financial statements.

c. Principles of consolidation

The consolidated financial statements include the accounts of the Bank and its subsidiaries over which the Bank has effective control. The percentages directly or indirectly held in those companies’ capital stock as of June 30, 2017 and December 31, 2016 are as follows:

Issuing Company	June 30, 2017	December 31, 2016
	% held of capital stock	
BHN Sociedad de Inversión Sociedad Anónima	100.00%	100.00%
BHN Seguros Generales Sociedad Anónima	100.00%	100.00%
BHN Vida Sociedad Anónima	100.00%	100.00%
BACS Banco de Crédito y Securitización Sociedad Anónima (a)	62.28%	87.50%
BACS Administradora de activos S.A. S.G.F.C.I.	85.00%	85.00%
Tarshop S.A. (b)	80.00%	80.00%
BH Valores SA	100.00%	100.00%

(a) On February 21, 2017, BACS’ Board of Directors approved 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. (“IRSA”) See note 17.

(b) On September 11, 2015, the Board of Directors of the Bank approved an irrevocable capital contribution to Tarshop S.A. of Ps. 52,500 to be made by shareholders the Bank and IRSA pro rata of their shareholdings. Additionally, on November 4, 2015, an irrevocable capital contribution to Tarshop S.A. of Ps. 52,500 to be made by shareholders Banco Hipotecario S.A. and IRSA pro rata of their shareholdings was approved by the Board of Directors of the Bank.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the period ended June 30, 2017, in comparative format with the Balance Sheet as of December 31, 2016
and the Statement of Income, Statement of Changes in Shareholders' equity and Statement of Cash Flows
as of June 30, 2016

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

The procedure followed by the Bank to include the controlled investees BHN Sociedad de Inversión Sociedad Anónima –consolidated– and BACS Banco de Crédito y Securitización Sociedad Anónima - consolidated-, BH Valores SA and Tarshop SA's accounts was as follows:

- 1.1. The Bank's financial statements have been prepared in line with the valuation and disclosure standards laid down by the BCRA, including consolidated balances reported in the Balance Sheet, the Statement of Income, Memorandum Accounts and Statement of Cash Flow and Cash Equivalents of the referred companies, in compliance with such standards.
- 1.2. Items resulting from intercompany transactions not disclosed to third parties were eliminated from the Balance Sheet, the Statement of Income, Memorandum Accounts and Statement of Cash Flow and Cash equivalents and.
- 1.3. The portion of the Shareholders' Equity corresponding to the minority interest has been disclosed in the Consolidated Balance Sheet, in the line captioned "Minority Interest".
- 1.4. The portion of the net income/ (loss) on the minority interest has been disclosed in the Consolidated Statement of income, in the line captioned "Net income / (loss) on Minority Interest".

d. Presentation of financial statements in constant argentine pesos

The financial statements have been adjusted for inflation in conformity with the guidelines set in Communication "A" 551 of the Argentine Central Bank up to the financial year ended December 31, 1994, and prepared in accordance with the standards laid down by CONAU 1 Circular. As from January 1, 1995, and according to the authorization accorded by Resolution N° 388 of the Argentine Central Bank's Superintendency of Financial and Exchange Institutions, the Bank discontinued the adjustment for inflation of its financial statements until December 31, 2001. As from January 1, 2002, as a result of the application of Communication "A" 3702 which established the repeal of any legal and regulatory rule that did not allow companies to restate their accounting balances at year-end currency values, the Bank resumed the application of the adjustment for inflation in accordance with the rules issued in due time by the Argentine Central Bank using the adjustment coefficient derived from the domestic wholesale price index published by the National Statistics and Census Institute (INDEC). Furthermore, it has been considered that the accounting measurements derived from the changes in the purchasing power of the currency between December 31, 1994 and 2001 are stated in the currency value as of the latter date.

On March 25, 2003, the Executive Branch issued Decree 664 establishing that the financial statements for years ending as from that date are to be stated in nominal currency. Consequently, in accordance with Communication "A" 3921 of the BCRA, the restatement of the financial statements was discontinued as from March 1, 2003.

Pursuant to the Argentine professional accounting standards in effect in the City of Buenos Aires, the financial statements must be stated in constant currency. The restatement method and the need to apply it arise from requirements contained in Technical Pronouncements No. 6 and No. 17 of the Argentine Federation of Professional Councils in Economic Sciences (FACPCE), as amended by Technical Pronouncement No. 39 issued by the referred entity on October 4, 2013 and approved by the Professional Council in Economic Sciences of the City of Buenos Aires on April 16, 2014. These standards provide that the effects of inflation should be recognized in the financial statements in the event that certain conditions in the Argentine economy are met.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the period ended June 30, 2017, in comparative format with the Balance Sheet as of December 31, 2016
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as of June 30, 2016

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

This circumstance should be considered upon assessing and interpreting these financial statements, which have been prepared in line with the accounting standards issued by the Argentine Central Bank for application by financial institutions. The differences between the Argentine Central Bank regulations and the professional accounting standards in force in the Autonomous city of Buenos Aires are detailed in Note 3.

The restatement method and the need to apply it arise from requirements contained in Technical Pronouncements (RT) No. 6 and No. 17 of the FACPCE, as amended by Technical Pronouncement No. 39 issued by the referred entity on October 4, 2013 and approved by the Professional Council in Economic Sciences of the City of Buenos Aires on April 16, 2014. These standards provide that the effects of inflation should be recognized in the financial statements. As of June 30, 2017, the cumulative inflation rate for the three consecutive years ended on such date could not be calculated on the basis of official data provided by the INDEC since, in October 2015, the referred entity discontinued the calculation of the Wholesale Domestic Price Index (IPIM) and resumed it in January 2016.

As of the end of the reporting period, the Bank has found that the economy does not meet the conditions established in the Argentine professional accounting standards to qualify as highly inflationary; moreover, the Argentine government expects that the inflation level will fall. Therefore, these financial statements were not restated to constant currency.

However, in recent years, certain macroeconomic variables affecting the Bank's business, including, without limitation, wage costs and prices for supplies, have experienced significant annual changes. This circumstance should be considered in assessing and interpreting the Bank's financial position and results disclosed in these financial statements.

2. Significant Accounting Policies

The following is a summary of significant accounting policies used in the preparation of the consolidated financial statements.

2.1. Foreign Currency Assets and Liabilities

US dollar assets and liabilities have been valued at the rate of exchange between the peso and the US dollar published by the Argentine Central Bank. Assets and liabilities valued in foreign currencies other than the US dollar were converted into US dollar the latter currency using the swap rates communicated by the Argentine Central Bank's operations desk, in force at the close of operations on the last business day of the periods ended June 30, 2017 and December 31, 2016.

Foreign currency transactions net gains or losses are recorded within "Financial income" or "Financial expenses" in the accompanying consolidated statements of income.

2.2. Interest accruals and adjustments of principal amounts (UVA, UVI, CER and CVS)

Interest accruals were determined using the exponential method for all lending and certain borrowing transactions in local and foreign currency, and interest accruals for loans overdue more than ninety days were discontinued.

Adjustments of principal amounts from application of the UVA (Unit of acquisitive value), UVI (Unit of housing), CER (Reference Stabilization Index), and CVS were accrued as established by Argentine Central Bank regulations, and interest accruals on loans overdue more than ninety days were discontinued.

BANCO HIPOTECARIO SA AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the period ended June 30, 2017, in comparative format with the Balance Sheet as of December 31, 2016
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2.3. Government and Corporate Securities

As of June 30, 2017 and December 31, 2016, the securities classified as "Holdings booked at fair market value", "Investment in listed corporate securities" and "Securities issued by the BCRA" with volatility published by the BCRA, have been valued at period-end market quotation.

As of June 30, 2017 and December 31, 2016, the securities classified as "Holdings booked at cost plus return" and "Securities issued by the BCRA" with no volatility published by the BCRA or with volatility but which the Entity decides to book under the first category, have been valued at their acquisition cost subject to an exponential increase based on the internal rate of return, net of contra accounts, if applicable.

2.4. Loans

The portfolio of performing loans and loans due ninety days or less has been valued in terms of the principal amounts actually lent, plus capitalized interest, net of principal amortization collected and debt balance refinancing, plus adjustments (from the application of the CER, and CVS where applicable) and accrued interest receivable and less the estimated reserve for loan losses.

Other loans to the public sector:

- i) as of June 30, 2017 and December 31, 2016, those loans were valued at cost plus return, taking as cost their book value as of December 31, 2010.
- ii) those originally granted in foreign currency have been converted into pesos at the exchange rate of Ps.1.40 per US dollar, as established by Law 25561, Decree 214 and complementary rules and amendments. Since February 3, 2002, the CER has been applied to the amount of those loans and maximum rates have been established, in accordance with Decree 1579/02, if those assets were subjected to the Exchange of Provincial Public Debt.

Loans to the non-financial private sector originally granted in foreign currency have been converted into pesos at the exchange rate of Ps.1.00 per US dollar, as established by Law 25561, Decree 214 and complementary rules and amendments. Since February 3, 2002, the CER and CVS have been applied to the amount of those loans and maximum rates have been established, depending on the borrower.

2.5. Other receivables for financial transactions

The individual mortgage loans of which the trustee ownership was transferred by the Bank and recorded in this caption have been valued and converted into pesos following the criterion described in points 2.2. and 2.4.

The rights arising from currency swap transactions have been valued at the quotation of that currency following the criterion described in point 2.1.

The financial trust participation certificates have been valued according to the equity method of accounting. Financial trust debt securities have been stated at cost plus return, index-adjusted by applying the CER to the appropriate instruments.

Financial trust debt securities have been stated at cost plus return, index-adjusted by applying the CER to the appropriate instruments.

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The interest rate swap transactions carried out for the purposes of hedging assets and liabilities with fixed and floating rates have been valued in accordance with the unsettled balances of agreed upon lending and borrowing interests rates.

OTC transactions agreed upon through ROFEX that are mainly closed as hedging for the position in foreign currency have been valued in accordance with the balances pending settlement

US dollar forward transactions which are generally settled upon maturity without delivery of the underlying asset have been valued in accordance with the balances pending settlement.

Unlisted negotiable obligations have been valued at acquisition cost exponentially increased according to the internal rate of return.

The Bank holds Negotiable Obligations in its own portfolio, measured at acquisition cost exponentially increased according to the internal rate of return.

Securities issued by the BCRA and government securities held as collateral for OTC transactions are valued as explained in item 2.3 of this note.

Repo transactions are carried at the value originally agreed upon, plus accrued premiums.

2.6. Receivables for financial leases

Receivables for financial leases are carried at the current value of the periodic installments and the residual value previously agreed upon, calculated as per the conditions set forth in the respective lease agreements, applying the internal rate of return and net of allowances for loan losses.

2.7. Investments in Other Companies

Permanent equity investments in companies where corporate decision are not influenced, are accounted for the lower of cost and the equity method. As of June 30, 2017 and December 31, 2016, these investments were recorded at cost.

This caption mainly includes the equity investments held in: Mercado Abierto Electrónico Sociedad Anónima, ACH Sociedad Anónima, Mercado de Valores de Buenos Aires Sociedad Anónima, Bolsas y Mercados Argentinos S.A. and SUPER-CARD S.A.

Additionally the Bank has participations as protecting partner in mutual guarantee companies and has made contributions to the companies' risk fund. These companies are: Confederar NEA S.G.R., Don Mario S.G.R., Los Grobo S.G.R. and Intergarantías S.G.R.

2.8. Miscellaneous receivables

Miscellaneous receivables have been valued at the amounts actually transacted, plus interest accrued and net of allowances for loan losses or impairment, if applicable.

2.9. Bank Premises and Equipment and Miscellaneous Assets

These assets are recorded at cost restated in pesos until February 28, 2003, net of accumulated depreciation calculated following the straight-line method, based on the estimated useful life of the assets. The cost of assets added before December 31, 1994 is restated in uniform currency as of that

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date, while subsequent transactions are valued in current purchasing power values of the year to which they correspond.

Depreciation is computed under the straight-line method over the estimated useful lives of the related assets. The estimated useful lives for bank premises and equipment are as follows:

Buildings	50 years
Furniture and fixtures	10 years
Machinery and equipment	5 years
Other	5 years

The cost of maintenance and repairs of these properties is charged to expense as incurred. The cost of significant renewals and improvements is added to the carrying amount of the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the consolidated statement of income.

The Bank records in "Miscellaneous assets – Assets acquired through foreclosures" housing units added to the Bank's assets in repayment of mortgage loans. These housing units have been valued at the lower of market value or the value of the loan, net of allowances.

The net book values of the assets taken as a whole do not exceed their economic value, except for the assets intended for sale, which do not exceed their net realizable value.

2.10. Intangible Assets, Net

Organization and system development expenses have been restated in constant monetary units up until February 28, 2003 and are being amortized monthly according to the straight-line method, based on their estimated useful life.

The Goodwill stemming from the purchase of 80% of Tarshop SA's capital stock in 2010 has been valued at acquisition cost, net of the accumulated amortization that had been calculated pro rata of the estimated useful life months.

Pursuant to Argentine Central Bank Communication "A" 5392, the Bank has capitalized increased direct expenses incurred in the mortgage loan origination process in its capacity as trustee, which disbursements would not have been incurred by it had it not been for the grant of the related loans. Such origination expenses are amortized in 60 monthly installments (See note 32).

2.11 Housing, life and unemployment insurance premiums in lending transactions and other transactions originated in its capacity of insurer, in accordance with the franchise granted by the privatization law

The Bank's policy is to recognize the premium income when the corresponding loan installment accrues, except for those loans that are more than ninety days in arrears, and allocate the expenditures for claims to the net income/(loss) for the period in which they occur.

The policy of charging the claims to income in the fiscal year in which they occur is applied to settle financial transactions in which the Bank acts as self-insurer. Besides, the Bank has additional allowances that cover potential contingencies associated to the debit balance of loan transactions.

2.12. Deposits

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Deposits have been valued at their placement value, plus adjustments from application of the CER, UVA, UVI and accrued interest, where applicable. The fixed return on each transaction is accrued on an exponential basis, while the variable return on time deposits adjusted by applying the CER, UVA and UVI and included in "Investment Accounts" is accrued at the pro rata agreed upon rate of return based on the improvement in the price of the financial asset or financial asset indicator, between the time the transaction is arranged and the end of the month.

2.13. Other liabilities from financial transactions

Unsubordinated negotiable obligations have been valued at their residual value plus accrued interest.

Foreign currency-denominated obligations under swap transactions carried out as a hedge have been converted into Argentine pesos according to the criterion described in note 2.1.

Interest rate swaps for agreed-upon fixed rate have been valued in accordance with the balances pending settlement of the agreed-upon lending and borrowing interest rates.

2.14. Miscellaneous liabilities

They are valued at the amounts actually transacted, plus accrued interest as of period end.

2.15. Provisions

The Bank estimates contingencies and records them in Provisions, under Liabilities, if applicable according to the estimated likelihood of occurrence. These provisions cover various items, such as insurance risk, provisions for lawsuits, provisions for taxes, other contingencies, etc..

In addition, the Bank has created the allowance required under Communication "A" 5689 issued by the Argentine Central Bank in order to provide for the total amount of administrative and/or disciplinary sanctions and criminal penalties supported by first instance rulings, applied or pursued by the Argentine Central Bank, the Financial Information Unit, the Argentine Securities Commission (the "CNV") and the Argentine Superintendence of Insurance.

2.16. Dismissal indemnities

The Bank does not set up any provisions to cover the risk of dismissal indemnities involving the staff. The disbursements in respect thereof are charged to the results for the period or year in which they occur.

2.17. Personnel benefits

The Bank has set up provisions for its employees' retirement plans.

2.18. Subordinated Bonds

Subordinated negotiable obligations have been recorded at their residual value plus interests accrued.

2.19. Non-controlling interest

The breakdown of supplementary equity interests recorded in "Non-controlling interest" in the accompanying consolidated balance sheets is as follows:

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	June 30, 2017	December 31, 2016
BACS Banco de Crédito y Securitización SA.....	Ps. 175,002	Ps. 43,441
Tarshop S.A.....	125,568	114,266
Total	Ps. 300,570	Ps. 157,707

2.20. Income Tax

Pursuant to Article 28 of Law 24855, the bank is subject to income tax, except for all the housing loan transactions carried out prior to October 23, 1997, date of registration of its by-laws with the Superintendence of Corporations.

The Bank charges to income and sets up a provision under liabilities for the income tax determined on its taxable transactions in the fiscal year in which those transactions are carried out.

The Bank recognizes income tax charges and liabilities on the basis of the tax returns corresponding to each fiscal year at the statutory tax rates. For all the periods contemplated in these financial statements, the corporate tax rate was 35%. Under Argentine Banking GAAP the Bank does not recognize deferred income taxes.

2.21. Minimum notional income tax

In view of the option granted by the BCRA by means of Communication "A" 4295, as of and June 30, 2017 and December 31, 2016, the Bank capitalized partially the tax amount paid in fiscal year 2012 as a minimum notional income tax credit.

2.22. Shareholders' Equity

- a. Capital stock, treasury shares, non-capitalized contributions, reserves, and capital adjustment:

The Shareholders' Equity account activity and balances prior to December 31, 1994 have been stated in the currency values prevailing at that date, following the method mentioned in this Note. The transactions carried out subsequent to that date have been recorded in currency values of the period or year to which they correspond. The balances of the Shareholders' Equity accounts as of June 30, 2017 have been restated up to February 28, 2003. The adjustment derived from the restatement of the balance of "Capital Stock" was allocated to "Equity Adjustments". The issued treasury shares added due to the termination of Total Return Swap transaction are carried at nominal value.

- b. Results:

Income and expenses have been recognized against the results for period, regardless of whether they have been collected or paid.

The preparation of the financial statements requires that the Bank's Board of Directors perform estimates affecting assets and liabilities, the net income/ (loss) for the fiscal period or year and the determination of contingent assets and liabilities at the date thereof, such as allowances for loan losses and impairment, the recoverable value of assets and provisions. Since these estimates involve value judgments regarding the probability of occurrence of future events, the actual net

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income/ (loss) may differ from the estimated amount and thus generate losses or profits affecting subsequent periods or years. All legal and regulatory rules in force at the date of presentation of these financial statements have been considered.

The financial statement figures for the previous fiscal period or year, presented for comparative purposes, include certain reclassifications and adjustments that contemplate specific disclosure criteria so as to present them on a consistent basis with those of the current fiscal year.

2.23. Statements of Cash Flows

The consolidated statements of cash flows were prepared using the measurement methods prescribed by the BCRA.

For purposes of reporting cash flows, "Cash and cash equivalents" include "Cash and due from banks".

3. Reconciliation of balances to the applicable accounting framework for convergence towards IFRS

On February 12, 2014, BCRA issued its Communication "A" 5541, as amended, whereby it provides a roadmap to convergence between the informational and accounting regime and International Financial Reporting Standards (IFRS). Pursuant to this Communication, the entities and institutions must account for their financial transactions and changes in accordance with the rules issued by BCRA following the above-mentioned convergence regime as from the fiscal years beginning on January 1, 2018 and their interim periods.

On December 12, 2016, the BCRA issued Communication "A" 6114, whereby it established the criteria that should be taken into consideration by financial institutions in the framework of convergence starting on January 1, 2018, highlighting: i) application of IFRS issued by the International Accounting Standards Board and adopted as of the date hereof by Technical Resolution No. 26 issued by the Argentine Federation of Professional Councils in Economic Sciences, as amended, and any circulars for adoption already approved and scheduled to come into force before December 31, 2018, ii) exception from application of Section 5.5 (impairment) of IFRS 9 "Financial Instruments" for institutions subject to control, with the standards on "Minimum allowances for loan losses" continuing in effect (in due time the BCRA will release a specific schedule for convergence towards the model adopted in line with international best practices), and iii) for the calculation of the interest rate that actually applies to the assets and liabilities that require the use of an interest rate for measurement purposes, preparers should take into consideration the principles, definitions and examples included in IFRS 9; allowing temporarily -until December 31, 2019- to use an overall estimate of the calculation of the interest rate actually applied to a group of similar financial assets or liabilities over which such interest rate should apply.

Accordingly, BHSA has prepared the following reconciliation of asset and shareholders' equity balances according to the BCRA's rules and to the IFRS as of June 30, 2017, and a reconciliation of comprehensive income for the period ended June 30, 2017. As established in IFRS 1 "First-time Adoption of International Financial Reporting Standards," the transition date to the IFRS for the Bank is January 1, 2017.

At present, the Bank is conducting a process to tailor its systems to the adoption of the IFRS. Therefore, the items and figures contained in this note might change. If by December 31, 2018, the standards in force were to have changed again, these items and figures might have to change as well.

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Reconciliation of balances to the applicable accounting framework for convergence towards the IFRS

A. Reconciliation of balances and shareholders' equity as of June 30, 2017

	Ref.	Separate Financial Statements			Consolidated Financial Statements		
		BCRA Balances	IFRS Adjustments	IFRS Balances	BCRA Balances	IFRS Adjustments (b)	IFRS Balances
Assets		49,272,040	(536,074)	48,735,966	55,261,858	(88,964)	55,172,894
Cash and due from banks		3,259,774	-	3,259,774	3,435,303	227,238	3,662,541
Government and Corporate Securities	(a), (h)	6,299,533	424,164	6,723,697	8,082,099	202,519	8,284,618
Loans	(a), (h)	28,801,438	(4,382)	28,797,056	31,167,477	4,377,206	35,544,683
Other receivables for financial transactions	(a), (h), (i)	5,436,578	(1,518,930)	3,917,648	7,942,975	(5,747,290)	2,195,685
Assets under financial leases		164,605	-	164,605	164,605	-	164,605
Investments in other companies	(b)	1,436,249	(66,473)	1,369,776	103,120	-	103,120
Miscellaneous Receivables	(h)	1,651,851	(5,627)	1,646,224	2,074,134	220,179	2,294,313
Bank Premises and Equipment	(c)	405,242	933,363	1,338,605	437,640	933,363	1,371,003
Miscellaneous Assets	(c)	1,253,687	97,479	1,351,166	1,267,042	97,479	1,364,521
Intangible Assets	(d)	550,186	(395,668)	154,518	574,566	(399,658)	174,908
Items pending allocation		12,897	-	12,897	12,897	-	12,897
Liabilities		42,590,835	(1,019,101)	41,571,734	48,580,653	(873,586)	47,707,067
Deposits		19,926,926	-	19,926,926	19,882,975	-	19,882,975
Other liabilities for financial transactions	(a), (e), (h), (i)	21,315,947	(1,209,847)	20,106,100	25,753,785	(377,857)	25,375,928
Miscellaneous liabilities	(g), (i)	985,067	99,110	1,084,177	2,242,471	(292,220)	1,950,251
Provisions	(f)	323,323	91,636	414,959	348,821	97,061	445,882
Items pending allocation		39,572	-	39,572	52,031	-	52,031
Non-controlling interest		-	-	-	300,570	(300,570)	-

	Separate Financial Statements			
	BCRA Balances	First-time IFRS Adjustments (k)	IFRS Adjustments	IFRS Balances
Shareholders' equity attributable to parent company's owners	6,681,205	620,201	(137,174)	7,164,232
Capital, Contributions and Reserves	4,400,376	-	-	4,400,376
Other comprehensive income	-	-	(4,322)	(4,322)
Unappropriated earnings	2,280,829	620,201	(132,852)	2,768,178

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	Consolidated Financial Statements			
	BCRA Balances	First-time IFRS Adjustments (k)	IFRS Adjustments	IFRS Balances
Shareholders' equity attributable to parent company's owners	6,681,205	620,201	(137,174)	7,164,232
Capital, Contributions and Reserves	4,400,376	-	-	4,400,376
Other comprehensive income	-	-	(4,322)	(4,322)
Unappropriated earnings	2,280,829	620,201	(132,852)	2,768,178
Shareholders' equity attributable to minority interests	-	163,767	137,828	301,595
Total Shareholders' Equity	6,681,205	783,968	654	7,465,827

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B. Reconciliation of the statement of comprehensive income as of June 30, 2017

	Ref.	Separate Financial Statements			Consolidated Financial Statements		
		BCRA Balances	IFRS Adjustments	IFRS Balances	BCRA Balances	IFRS Adjustments (b)	IFRS Balances
Net Income for the Period		624,973	(110,072)	514,901	624,973	(110,072)	514,901
Financial Income		4,413,379	19,875	4,433,254	5,331,279	511,858	5,843,137
Financial Expenses	(a)	2,967,577	-	2,967,577	3,440,399	395,050	3,835,449
Provision for loan losses		229,993	-	229,993	379,680	151,567	531,247
Income from Services	(e)	1,505,743	137	1,505,880	2,922,960	(21,710)	2,901,250
Expenses for Services	(a)	630,396	27,098	657,494	645,011	15,838	660,849
Administrative Expenses	(a), (c), (d), (f)	1,958,210	(39,177)	1,919,033	2,812,407	16,092	2,828,499
Other		492,027	(33,344)	458,683	(72,142)	32,263	(39,879)
Income Taxes	(j)	-	108,819	108,819	279,627	53,936	333,563
Other Comprehensive Income				(4,322)			(4,322)
Changes to surplus from revaluation of Bank Premises, Equipment and Intangible Assets				(4,810)			(4,810)
Gains (loss) from financial instruments at fair value through Other comprehensive income (IFRS 9, Sections 5.7.5 and 4.1.2A)				488			488
Total Comprehensive Income for the Period				510,579			510,579

Total Comprehensive Income attributable to:							
Parent company's owners	(a)						470,722
Non-controlling interest	(c)						39,857

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The items and figures contained in this reconciliation may only be regarded as final when annual financial statements are prepared for the year in which the IFRS are adopted for the first time, within the scope defined by the Argentine Central Bank in Communication "A" 6114, as amended.

C. Adjustments explained

(a) Changes to financial asset classification and measurement criteria

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 BCRA'S rules differ from the provisions of the IFRS in certain aspects, namely:

- (i) Government securities with no volatility published by the BCRA 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) Debt securities acquired at par value are stated at their current redemption value;
- (iv) 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 BCRA's rules may have had on them, where applicable;
- (v) Unlisted negotiable obligations and debt securities have been valued at their acquisition cost subject to an exponential increase based on the internal rate of return.

On the basis of the provisions contained in the IFRS, the Bank has classified the following financial instruments as "amortized costs":

- Loans and receivables associated to financial leases
- Financial trust debt securities
- Third-party negotiable obligations
- Financial liabilities

In addition, the following financial assets have been classified within the "fair value" category:

- Government securities
- Monetary regulation instruments issued by the Argentine Central Bank
- Shares

The differences in valuation criteria as of June 30, 2017 amount to:

	IFRS Adjustments in Separate Financial Statements	IFRS Adjustments in Consolidated Financial Statements
Government Securities	(2,207)	(2,207)
Loans	(62,664)	(95,683)
Other receivables for financial transactions	115,342	115,342

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Other liabilities for financial transactions	(54,956)	(63,514)
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(b) Investments in other companies

According to the rules laid down by the Argentine Central Bank, the companies discussed in Note 1 to the Consolidated Financial Statements are considered to be controlled companies. According to IFRS, these companies continue to be considered subsidiaries and the following special purpose entities join them inasmuch as they are considered to be controlled by BACS:

Entity's name	Business
Fideicomiso Hipotecario BACS III	Financial trust
Fideicomisos Hipotecarios BACS Funding I	Financial trust
Fideicomisos Hipotecarios BACS Funding II	Financial trust

An entry to recognize the IFRS adjustments in controlled companies has been recorded in the separate financial statements which led to a decrease in shareholders' equity for Ps. 66,473.

(c) Bank Premises, Equipment and Miscellaneous Assets

The Bank used the voluntary exemption set forth in IFRS 1 to measure certain items in the Real Estate Property caption. This entails measuring such items at their fair value and using such fair value as the cost attributed at the date of transition.

Additionally, the Bank capitalizes the costs associated to stationery and office supplies. According to the IFRS, these costs do not fulfill the requirements to be capitalized. Therefore, the balance of such item was reversed.

	Separate Financial Statements			Consolidated Financial Statements		
	BCRA Balances	IFRS Adjustments	IFRS Balances	BCRA Balances	IFRS Adjustments	IFRS Balances
Revaluation of Real Estate Property pursuant to application of the IFRS 1	82,699	933,363	1,016,062	82,699	933,363	1,016,062
Other bank premises and equipment	322,543	-	322,543	354,941	-	354,941
Total bank premises and equipment caption	405,242	933,363	1,338,605	437,640	933,363	1,371,003
Revaluation of Real Estate Property pursuant to application of the IFRS 1	10,032	132,741	142,773	10,032	132,741	142,773
Stationery and office supplies	35,262	(35,262)	-	35,262	(35,262)	-
Other miscellaneous assets	1,208,393	-	1,208,393	1,221,748	-	1,221,748
Total Miscellaneous assets caption	1,253,687	97,479	1,351,166	1,267,042	97,479	1,364,521

(d) Intangible Assets

Under IFRS, an intangible asset is an identifiable non-monetary asset without physical substance. In order to recognize intangibles, the Bank is required to have control over the asset, and future economic benefits are to be derived from that asset. Under the BCRA's rules, the Bank has recognized intangible assets that do not meet the recognition requirements of IFRS. As of June 30, 2017, the adjustment represents a decrease in shareholders' equity of Ps. 395,668 and Ps. 399,658 at separate and consolidated level, respectively.

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(e)Financial Collateral

Under the IFRS, financial collateral given by an entity should be initially recognized at fair value, which in most cases is equal to the fees charged. Such amount is then amortized on a straight line basis during the term of the contract. At each period end, financial collateral is measured at the higher of: (i) the fees not yet accrued as of the period/year-end, and (ii) the best estimate of the amount payable to terminate the contract, discounted at its present value as of the period/year-end.

Under the BCRA's rules, fees earned on financial collateral arrangements are charged to income when cashed.

The adjustment encompasses recognizing an asset in receivables for financial transactions for Ps. 1,032 and a liability in other liabilities for financial transactions for Ps. 677.

(f)Accruals

Under 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 BCRA's rules, 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, which as of June 30, 2017 amounts to:

	Separate Financial Statements			Consolidated Financial Statements		
	BCRA Balances	IFRS Adjustments	IFRS Balances	BCRA Balances	IFRS Adjustments	IFRS Balances
Vacation Bonus Accruals	25,246	91,636	116,882	44,813	97,061	141,874

(g)Claims reserve

BHN Vida S.A. and BHN Seguros Generales S.A. are subsidiaries of our BHN Sociedad de Inversión S.A. subsidiary and they have evaluated at the end of each fiscal period/year being reported whether insurance claims' liabilities have been adequately recognized on the basis of the current estimates of the future cash flows stemming from their insurance contracts. Based on the evaluation as of June 30, 2017, the shareholders' equity was reduced by Ps. 2,972.

(h)Reclassifications without impact on shareholders' equity

Reverse repo transactions

Under IFRS, a bank will derecognize a financial asset that had been assigned only to the extent the risks and benefits associated to that asset had been substantially transferred. In a reverse repo transaction, where the repurchase price is fixed, the Bank is not deemed to have substantially transferred all risks and benefits attached to the instrument and, hence, a liability should be recognized for the consideration received, without derecognizing the instrument involved in the repo transaction.

Under the BCRA's rules, a financial asset is to be derecognized when it is transferred. The adjustment involves recognizing the instruments and then reversing the receivable for financial transactions and the haircut booked under miscellaneous receivables.

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Repo transactions

Under IFRS, a financial asset acquired through a repo transaction with no transfer of the risks and benefits associated to that asset should be recognized as a loan granted.

Under the BCRA's rules, the acquired security is recognized at the time of the transfer. The adjustment involves derecognizing the listed government security, followed by the reversal of the holding gains (losses) from such security that had been charged to income, and by the reversal of the liability booked under liabilities for financial transactions.

Transactions to be settled

Under IFRS, a conventional purchase or sale of financial assets is recognized using the "trade date" or the "settlement date" accounting. The election between one or the other is a matter of accounting criteria that will then have to be consistently applied to all purchases and sales of financial assets classified within the same category.

The Bank relies on the accounting criteria of recognizing spot and forward transactions to be settled on the trade date. Accordingly, the Bank will recognize all traded transactions that are pending as if such transactions had been settled.

Under the BCRA's rules, the Bank recognizes spot and forward transactions to be settled on the trade date under Other receivables for financial transactions or under Other liabilities for financial transactions, as applicable, and classifies them under the applicable item on the settlement date.

The amounts reclassified as of June 30, 2017 are as follows:

	IFRS Adjustments in Separate Financial Statements				
	Repo Transactions	Reverse repo Transactions	Transactions to be settled	Guarantees	Total
Government Securities	(64,795)	19,205	178,949	293,012	426,371
Loans	58,282	-	-	-	58,282
Other receivables for financial transactions	(58,282)	(19,205)	(1,269,400)	(287,385)	(1,634,272)
Miscellaneous receivables	-	-	-	(5,627)	(5,627)
Other liabilities for financial transactions	(64,795)	-	(1,090,451)	-	(1,155,246)
Total impact on shareholders' equity	-	-	-	-	-

	IFRS Adjustments in Consolidated Financial Statements				
	Repo Transactions	Reverse repo Transactions	Transactions to be settled	Guarantees	Total
Government Securities	(282,960)	19,205	175,469	293,012	204,726
Loans	276,760	-	-	-	276,760
Other receivables for financial transactions	(276,760)	(19,205)	(1,345,988)	(287,385)	(1,929,338)
Miscellaneous receivables	-	-	-	(5,627)	(5,627)
Other liabilities for financial transactions	(282,960)	-	(1,170,519)	-	(1,453,479)
Total impact on shareholders' equity	-	-	-	-	-

(i) Derecognition of financial assets

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According to IFRS, entities must derecognize financial assets from the accounts if and only if:

- (a) Contractual rights over the financial assets' cash flows expire; or
- (b) The financial asset is transferred and the transfer satisfies all the requirements for derecognition from the accounts.

Transfer of financial assets

Entities shall be considered to have transferred a financial asset if and only if:

- (a) the entities transfer the contractual rights to receive the cash flows from a financial asset, or
- (b) entities retain the contractual rights to receive the cash flows from the financial asset but take the contractual obligation to pay them to one or more receivers.

Derecognition from the accounts: requirements

When entities transfer a financial asset, the entities shall assess the extent to which they retain the risks and the rewards inherent in ownership. In this case:

- (a) If an entity proceeds with a substantial transfer of the risks and rewards inherent in the ownership of a financial asset, the entity shall derecognize it from the accounts and shall recognize separately, as either assets or liabilities, any rights and duties created or retained upon transferring ownership.
- (b) If the entity retains substantially all the risks and rewards inherent in ownership of a financial asset, the entity will continue to recognize this asset.
- (c) If the entity proceeds with neither a substantial transfer nor retention of all the risks and rewards inherent in ownership of a financial asset, the entity shall determine whether it has retained control over the financial asset. In this case:
 - (i) If the entity has not retained control, the entity shall derecognize the financial asset and shall separately recognize, as assets or liabilities, any rights or obligations created or retained as a result of the transfer.
 - (ii) If the entity has retained control, the entity shall continue to recognize the financial asset to the extent of its continued involvement in the financial asset.

Transfers that do not satisfy the requirements for derecognition from the accounts

If a transfer does not lead to a derecognition from the accounts because the entity has substantially retained all the risks and rewards inherent in ownership of the asset transferred, the entity shall continue to recognize said transferred asset in its entirety and shall recognize a financial liability in exchange for the consideration received. In subsequent periods, the entity shall recognize all income from the asset transferred and all expenses incurred by the financial liability.

As of the date of transition, we have adopted the IFRS 1 exception concerning financial asset derecognition. This exception provides that an entity that is a first-time IFRS adopter shall apply the IFRS 9's requirements for derecognition from the accounts on a prospective basis for the transactions that are conducted as from the date of transition to IFRS.

This notwithstanding, IFRS 1 also sets forth that if an entity is a first-time adopter of the IFRS after a subsidiary, this entity shall measure in its consolidated financial statements the subsidiary's assets and liabilities for the same book amounts as those appearing in the subsidiary's financial statements. This is the case of our Tarshop S.A. subsidiary which adopted IFRS for the periods starting as from January 1, 2012 and therefore, the subsidiary applies IFRS 9 and applies the requirements for derecognition from the accounts prescribed by IFRS9 giving rise to an adjustment that reduces shareholders' equity for Ps. 178,987.

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(j)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 legislation that was, or is about to be, enacted 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 about to be, enacted as of the balance sheet date 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 BCRA's rules, the Bank recognizes the current tax liability for the period/year.

As of June 30, 2017, the effect of recognizing deferred tax asset is a decrease in shareholders' equity equivalent to Ps. 99,110 at separate level and an increase in shareholders' equity for Ps. 51,277 at consolidated level.

(k)Application of IFRS 1

Below is a detail of the applicable exemptions and exceptions used in this reconciliation.

Optional exemptions under IFRS:

Below is a detail of the applicable exemptions and exceptions under IFRS 1 that were relied upon during the transition from the BCRA's rules to IFRS:

Under IFRS 1, entities adopting IFRS for the first time are allowed to consider certain one-off waivers to the retroactive application requirement of IFRS in force for financial statements ending on December 31, 2018. The IASB has established such waivers in order to streamline the first-time adoption of such standards.

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 property and investment property 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 IFRS.

3. Assets and liabilities of subsidiaries that have already adopted the IFRS: the Bank has adopted IFRS for the first time after its subsidiary Tarshop S.A. Therefore, the carrying values of this subsidiary's assets and liabilities have been measured in the Bank's consolidated financial statements for the same amounts disclosed in that subsidiary's separate financial statements.

4. Designation of previously recognized financial instruments: the Bank has opted for designating certain financial instruments, in the light of the facts and circumstances prevailing on the transition date to IFRS.

5. Loan costs: the Bank has opted for applying the requirements of IAS 23 as from the transition date to the IFRS.

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6.The Bank has not relied on the other exemptions available under the IFRS 1.

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 to calculate balances as per IFRS as of the transition date to IFRS are consistent with the estimates made as of the same date following the BCRA's accounting rules (without applying the impairment chapter under IFRS 9)

2.Derecognition of financial assets and liabilities: IFRS 1. The Bank has relied on the derecognition criteria for financial assets and liabilities under IFRS 9 on a prospective basis for transactions occurring as of the transition date to IFRS.

3.Classification and measurement of financial assets: the Bank has taken into consideration the facts and circumstances prevailing as of the transition date to IFRS in assessing whether financial assets are eligible for classification as assets measured at amortized cost, or at fair value through other comprehensive income.

4.Below is a list of other mandatory exceptions established in IFRS 1 that were not applied for they are not relevant to the entity:

- Hedge accounting,
- Minority interests,
- Embedded derivatives,
- Government loans

However, in preparing this information, the Bank had to make estimates affecting assets and liabilities and net income for the period/year which may result in changes when preparing the financial statements as of December 31, 2018.

4. Restricted Assets

Certain of the Bank's assets are pledged or restricted from use under various agreements. The following assets were restricted at each balance sheet date:

	June 30, 2017	December 31, 2016
Banco Hipotecario S.A.		
Securities issued by the BCRA as collateral for OTC transactions.....	-	326,789
Government securities as collateral for OTC transactions.....	287,385	-
Deposits in pesos as collateral for visa credit card transactions...	307,976	364,586
Securities issued by the BCRA as collateral for the custody of securities.....	5,627	-
Government securities as collateral for the custody of securities.	-	3,989
Deposits in pesos as collateral for leases.....	1,198	1,027

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Other collaterals	896	810
	<u>Ps. 603,082</u>	<u>Ps. 697,201</u>
Tarshop S.A.		
Deposits in pesos and in US Dollar as collateral for leases.....	1,116	715
Certificates of participation in Financial Trusts granted as commercial pledge for a loan received.....	32,205	32,205
Time deposits pledged for tax obligations arising from Financial Trusts.....	7,202	6,531
Deposits in pesos related to Financial Trusts transactions.....	142,729	131,209
Receivables in trust to secure an overdraft facility received.....	83,307	84,341
Loans to secure the future issuance of Financial Trust.....	216,946	175,204
Deposits in pesos as collateral for visa credit card transactions...	27,426	18,142
Government securities as collateral for visa credit card transactions.....	21,124	13,390
	<u>Ps. 532,055</u>	<u>Ps. 461,737</u>
BACS Banco de Crédito y Securitización S.A.		
Receivables in pledge loans to secure a loan received.....	14,867	26,572
Securities and pesos as collateral for OTC transactions.....	22,325	32,214
	<u>Ps. 37,194</u>	<u>Ps. 58,786</u>
BH Valores S.A.		
Mercado de Valores de Buenos Aires SA's share pledged on behalf of Chubb Argentina de Seguros SA.....	Ps. 22,500	Ps. 4,000
	<u>Ps. 1,194,829</u>	<u>Ps. 1,221,724</u>
Total		

5. Government and Corporate securities

Government and Corporate Securities held by the Bank consist of the following balances:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Holding booked at market fair value		
Government securities in pesos.....	Ps. 680,342	Ps. 1,712,791
Government securities in US\$.....	2,152,945	555,380
Government securities in Euros.....	25,921	22,460
Bills issued by Provincial Governments in pesos.....	59,871	-
Bills issued by Provincial Governments in US\$.....	212,487	231,794
	<u>Ps. 3,131,566</u>	<u>Ps. 2,522,425</u>
Holding booked at cost plus return		
Bills issued by Provincial Governments in pesos...	Ps. 50,670	Ps. 52,921
Government securities in US\$.....	526,672	807,100
Bills issued by Provincial Governments in US\$.....	140,981	157,064
	<u>Ps. 718,323</u>	<u>Ps. 1,017,085</u>
Investment in listed corporate securities		
Corporate securities in pesos.....	Ps. 637,853	Ps. 352,854
	<u>Ps. 637,853</u>	<u>Ps. 352,854</u>

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Securities issued by the BCRA			
Quoted bills and notes issued by the BCRA.....	Ps.	3,198,567	Ps. 446,114
Unquoted bills and notes issued by the BCRA.....		407,452	670,796
	Ps.	<u>3,606,019</u>	Ps. <u>1,116,910</u>
Allowances		<u>Ps. (11,662)</u>	Ps. <u>(11,662)</u>
Total		<u>Ps. 8,082,099</u>	Ps. <u>4,997,612</u>

The bank recorded in their financial statements income from government and corporate securities for an amount of Ps. 966,655 and Ps. 1,269,428 as of June 30, 2017 and 2016, respectively.

6. Loans

Other loans to the non-financial private sector and foreign residents are comprised of the following for the periods indicated:

		<u>June 30, 2017</u>	<u>December 31, 2016</u>
Working capital in pesos	Ps.	3,180,535	Ps. 2,439,375
Working capital in US dollars.....		1,247,900	973,698
Loans for the financing of manufacturers.....		192,362	189,838
Loans for the financing of Service Providers in US dollars		844,034	602,308
Export prefinancing		1,817,277	961,248
Total	Ps.	<u>7,282,108</u>	Ps. <u>5,166,467</u>

7. Other receivables from financial transactions

The breakdown of "Other receivables not included in the debtor classification regulations", under the caption "Other receivables for financial transactions", is as follows:

		<u>June 30, 2017</u>	<u>December 31, 2016</u>
Bonds held in the Bank's portfolio.....	Ps.	197,126	Ps. 388,858
Trust participation certificates.....		1,637,942	1,312,881
Debt securities.....		2,229,285	2,393,543
Other.....		441	2,030
Total	Ps.	<u>4,064,794</u>	Ps. <u>4,097,312</u>

8. Miscellaneous receivables

Other miscellaneous receivables are comprised of the following for the periods indicated:

		<u>June 30, 2017</u>	<u>December 31, 2016</u>
Tax prepayments and withholdings.....	Ps.	131,597	Ps. 69,415
Recoverable expenses, taxes, and advances to third parties.....		562,583	428,397

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Attachments for non-restructured ON.....	22,302	11,179
Other receivables from lawsuits.....	5,597	6,729
Guarantee deposit securing financial agreements.....	54,886	29,574
Guarantee deposit for credit card transactions.....	307,976	364,586
Other Directors fees.....	29,154	36,229
Loans to Bank staff.....	181,953	188,312
Collections pending reporting by collecting entities.....	99,896	181,275
Goods, services and insurance related to leasing.....	16,589	21,246
Other.....	467,021	549,817
Total	Ps. 1,879,554	Ps. 1,886,759

9. Allowance for loan losses

The activity in the allowance for loan losses for the periods presented is as follows:

	June 30, 2017	December 31, 2016
Balance at beginning of the year.....	Ps. 676,141	Ps. 451,751
Provision charged to income	379,680	466,365
Loans charged off.....	(259,275)	(241,975)
Balance at end of the period.....	Ps. 796,546	Ps. 676,141

10. Bank Premises and Equipment and Intangible Assets

The book values of major categories of bank premises and equipment and total accumulated depreciation as of the periods indicated are as follows:

	June 30, 2017	December 31, 2016
Land and buildings.....	Ps. 237,461	Ps. 191,759
Furniture and fixtures.....	116,816	105,279
Machinery and equipment.....	385,656	358,077
Other.....	60,570	57,012
Accumulated depreciation.....	(362,863)	(321,899)
Total	Ps. 437,640	Ps. 390,228

Intangible assets, net of accumulated amortization, as of the end of periods indicated are as follows:

	June 30, 2017	December 31, 2016
Third parties fees, re-engineering, restructuring and capitalized software costs.....	Ps. 225,435	Ps. 200,436
Goodwill (*).....	11,648	13,363
Mortgage loan origination expenses related to Pro.Cre.Ar. (see note 32).....	337,483	353,565
Total	Ps. 574,566	Ps. 567,364

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(*) Goodwill is mainly related to the acquisition of Tarshop S.A., which has been allocated to the Credit card segment- Tarshop.

11. Miscellaneous assets

Miscellaneous assets consist of the following as of the end of each period:

	June 30, 2017	December 31, 2016
Construction in process (*).....	Ps. 1,208,167	Ps. 51,459
Assets leased to others.....	36,554	30,124
Stationery and office supplies.....	35,262	32,554
Advance for property purchase (*).....	-	176,551
Other.....	13,589	30,009
Accumulated depreciation.....	(26,530)	(24,629)
Total	<u>Ps. 1,267,042</u>	<u>Ps. 296,068</u>

(*) On April 20, 2016, by means of a public auction conducted by the government of the City of Buenos Aires, we acquired the building known as "Edificio del Plata" with the purpose of setting up a branch and corporate offices, for approximately US\$68 million. On April 29, 2016, we paid 15% of the acquisition price and on April 20, 2017 we paid the outstanding balance. The title deed was executed on April 25, 2017.

12. Deposits

The breakdown of deposits is as follows:

	June 30, 2017	December 31, 2016
Time deposits.....	Ps. 13,717,667	Ps. 13,819,415
Saving deposits.....	4,415,774	3,611,713
Checking accounts.....	1,617,474	1,362,218
Other deposits.....	132,060	191,646
Total	<u>Ps. 19,882,975</u>	<u>Ps. 18,984,992</u>

13. Other Liabilities from Financial Transactions

The breakdown of the "Others" line, under the "Other liabilities from financial transactions" caption, is as follows:

	June 30, 2017	December 31, 2016
Collections and other transactions on behalf of third parties.....	Ps. 684,551	Ps. 497,792
Credit cards consumptions payable.....	1,829,250	1,810,155
Retail Bank Network.....	6,768	6,382
Financial hedge contract.....	623,267	620,080
Others.....	19,202	(2,631)
Total	<u>Ps. 3,163,038</u>	<u>Ps. 2,931,778</u>

14. Miscellaneous Liabilities

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Other miscellaneous liabilities consist of the following as of the end of each period:

	June 30, 2017	December 31, 2016
Sundry creditors.....	Ps. 617,671	Ps. 575,208
Other fees and expenses payable.....	127,733	205,131
Tax withholdings and taxes payable.....	75,000	112,645
Taxes payable.....	682,505	488,581
Payroll withholdings and contributions.....	252,318	214,800
Salaries and social security charges payable.....	268,222	336,994
Other.....	135,530	221,244
Total	Ps. 2,158,979	Ps. 2,154,603

15. Provisions

Provisions as of the end of each period are as follows:

	June 30, 2017	December 31, 2016
Provision for lawsuits (a).....	Ps. 181,279	Ps. 198,591
Contingency risks.....	140,200	65,400
Tax provision.....	25,068	3,132
Customers' Loyalty Program.....	1,674	58,124
Provision for administrative disciplinary criminal penalties....	600	600
Total	Ps. 348,821	Ps. 325,847

(a) Includes legal contingencies and expected legal fees.

16. Other Liabilities from Financial Transactions – Negotiable obligations

The balance of the negotiable obligations has been included in "Other liabilities for financial transactions". The residual face values of negotiable obligations issued are as follows:

	Issue date	Maturity date	Annual interest rate (a)	June 30, 2017
Banco Hipotecario				
Series XII (US\$ 44,508 thousand)	08/14/13	08/14/17	3.95%	489,359
Series XXIX (US\$ 200,000 thousand)	11/30/15	11/30/20	9.75%	3,304,677
Series XXIX (US\$ 150,000 thousand) Tranch II	05/23/16	11/30/20	9.75%	2,489,775
Series XXXI (US\$ 14,730 thousand)	09/04/15	09/04/18	2.0%	244,496
Series XXXIV (Ps. 264,030 thousand)	02/10/16	08/10/17	Badlar +400bp	264,030
Series XXXV (Ps. 235,970 thousand)	02/10/16	02/10/19	Badlar +499bp	235,970
Series XXXVI (Ps. 469,750 thousand)	05/18/16	11/18/17	Badlar +425bp	469,750
Series XXXVIII (Ps. 145,200 thousand)	08/18/16	02/18/18	Badlar +300bp	145,200

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Series XXXIX (Ps. 343,241 thousand)	08/18/16	08/18/19	Badlar +349bp	343,241
Series XL (Ps.6,078,320 thousand)	10/12/16	01/12/20	Badlar +250bp	5,634,899
Series XLI (Ps.354,362 thousand)	02/20/17	08/20/18	Badlar +289bp	331,209
Series XLII (Ps.645,638 thousand)	02/20/17	02/20/20	Badlar +320bp	630,652
Series XLIII (UVA 54,606 thousand)	05/08/17	05/08/20	2.75%	1,034,920
Series XLIV (Ps. 256,644 thousand)	05/08/17	11/08/18	Badlar+275bp	255,111
Series XLV (Ps. 102,436 thousand)	05/08/17	05/08/20	Badlar+298bp	101,806
BACS Banco de Crédito y Securitización				
Series VII (Ps. 142,602 thousand)	02/18/16	11/18/17	Badlar +475bp	95,073
Series VIII (Ps. 150,000 thousand)	05/24/16	11/24/17	Badlar +439bp	150,000
Series IX (Ps. 249,500 thousand)	07/27/16	07/27/18	Badlar +345bp	249,500
Series X (Ps. 91,000 thousand)	10/11/16	05/10/18	Badlar +375bp	91,000
Series XI (Ps. 201,000 thousand)	10/11/16	11/10/19	Badlar +400bp	201,000
Series XII (Ps. 98,461 thousand)	04/28/17	10/28/18	Badlar+300bp	98,461
Series XIII (Ps. 201,539 thousand)	04/28/17	04/28/20	Badlar+350bp	201,539
Tarshop				
Series XIX (Ps. 6,316 thousand)	11/26/14	11/26/17	Badlar+525bp	6,267
Series XXVI (Ps. 156,972 thousand)	01/26/16	07/26/17	Badlar+650bp	155,723
Series XXVII (Ps. 147,288 thousand)	05/04/16	11/04/17	Badlar+600bp	146,116
Class I (Ps. 204,033 thousand)	09/07/16	03/07/18	Badlar+448bp	202,410
Class II (Ps. 67,360 thousand)	09/07/16	03/07/19	Badlar+499bp	66,824
Class IV (Ps. 213,031 thousand)	11/04/16	05/04/18	Badlar+400bp	211,336
Class V (Ps. 77,818 thousand)	11/04/16	05/04/19	Badlar+425bp	77,199
Class VII (Ps. 229,000 thousand)	01/24/17	07/24/18	Badlar+400bp	227,178
Class VIII (Ps. 53,237 thousand)	01/24/17	07/24/19	Badlar+469bp	52,814
Class IX (Ps. 288,444 thousand)	04/20/17	10/20/18	Badlar+400bp	286,149
Class X (Ps. 211,556 thousand)	04/20/17	10/20/19	Badlar+474bp	209,873
				18,703,557

(a) As of June 30, 2017 Badlar rate was 20.125%.

The contractual maturities of the negotiable obligations are as follows as of June 30, 2017:

June 30, 2018.....	Ps.	2,426,264
June 30, 2019.....		2,072,097
June 30, 2020.....		8,410,744
Thereafter.....		5,794,452
Total	Ps.	18,703,557

The General Shareholders' Meeting held on May 23, 2008, approved the creation of a new Global Program for issuing Negotiable Obligations, not convertible into shares, with or without collateral, for an amount of up to two billion US dollars (US\$ 2,000,000,000) or the equivalent thereof in pesos.

On March 27, 2012, the General Ordinary Shareholders' Meeting approved the extension of the Global Program for the issuance of notes referred above. In addition, the meeting resolved to delegate on the Board of Directors the broadest powers to determine the time, amount, as well as the other terms and conditions of each Series to be issued. Additionally, on April 24, 2014, the General Ordinary Shareholders' Meeting renewed such delegation of powers.

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On February 11, 2015 the Bank's Board of Directors approved the increase in the Program amount for up to US Dollars seven hundred million (US\$ 700,000,000) or its equivalent in pesos.

On May 6, 2015, the Bank's Board of Directors approved the increase in the Program amount for up to US dollars eight hundred million (US\$ 800,000,000) or its equivalent in pesos.

In addition, the General Ordinary Shareholders' Meeting held on April 13, 2016, approved the extension of the Bank's Global Program for the issuance of Notes for up to US Dollars eight hundred million (US\$ 800,000,000) or its equivalent in pesos currently in force for a term of up to 5 years, or for such longer term as may be permitted by applicable laws.

The Board of Directors of Banco Hipotecario S.A., at its meeting held on September 15, 2016, approved the increase in the Program's amount for up to US dollars one billion (US\$1,000,000,000) or its equivalent in pesos.

On October 12, 2016, the Bank issued Notes in the international capital markets for an amount of Ps. 6,078,320.

The Board of Directors of Banco Hipotecario S.A., at its meeting held on November 9, 2016, approved the increase in the Program's amount for up to US dollars one and a half billion (US\$ 1,500,000,000) or its equivalent in pesos.

On December 23, 2016, the Bank partially repurchased and cancelled Series XI Notes for an amount of Ps. 400,000.

17. Subordinated Bonds

At the Extraordinary General Shareholders' Meeting of BACS Banco de Crédito y Securitización S.A., 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.

On June 22, 2015, BACS issued negotiable obligations that are convertible into BACS' ordinary and book-entry shares for a principal amount of Ps.100,000.

The private offering of the convertible negotiable obligations was solely addressed to BACS' shareholders. IRSA subscribed all the convertible negotiable obligations.

On June 21, 2016, the Entity was notified by IRSA about the decision to exercise its conversion rights over the Subordinated Negotiable Obligations Convertible into Common Shares and the filings made before the BCRA 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 Notes Convertible into Common Shares in favor of IRSA, representing 26.989% of its stock capital.

BACS Banco de Crédito y Securitización S.A.'s board meeting held on February 21, 2017 resolved BACS' capital increase for Ps.87,813 and the issuance of 25,313,251 book-entry common shares with a face value of (Ps.1.00) and one voting right each in favor of IRSA.

18. Level I American Depositary Receipts Program

On March 27, 2006, the US Securities and Exchange Commission (SEC) has made effective the Level I American Depositary Receipts, "ADR" program.

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This program allows foreign investors to buy the Bank's stock through the secondary market where ADRs are traded freely within the United States. The Bank of New York has been appointed as depository institution.

19. Derivative Financial Instruments

The Bank has carried out its financial risk management through the subscription of several derivative financial instruments. Derivative instruments are recorded under the captions "Other receivable from financial transactions – Balances of forward transactions not yet settled without delivery of underlying asset" or Liabilities: "Other liabilities from financial transactions – Balances of forward transactions not yet settled without delivery of underlying asset" in the Consolidated Balance Sheet, and the related gain or loss under the captions "Financial Income – Other" or "Financial Expenses – Other", respectively, in the Consolidated Statement of Income.

The following are the derivative financial instruments outstanding as of June 30, 2017 and December 31, 2016:

Type of Contract	Notional amount		Net Book Value Asset/(Liabilities)	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Futures (1)				
Purchases	5,667,447	24,496,972		
Sales	(5,249,140)	(23,015,869)	2,381	(17,391)
Interest Rate Swaps				
- CHA IX (2)	111,750	117,552	-	-
- CHA XI (4)	92,419	102,743	-	-
- CHA XII (5)	120,218	135,261	-	-
- CHA XIII (6)	81,180	83,174	-	-
- CHA XIV (7)	86,307	89,415	-	-
Currency Swap CHA X (3)	(809,906)	(634,080)	(622,112)	(620,080)
			(619,731)	(637,471)

1. Futures: Future currency transactions have been carried out through which the forward purchase and sale of foreign currencies (US dollar) was agreed upon. These transactions were performed as hedge for foreign currency position. Settlement is carried on a daily basis for the difference.

For these transactions, as of June 30, 2017 and 2016, the Bank has recognized losses of Ps. 297,339 and gains of Ps. 226,182, respectively.

- (b) Interest rate swaps: On August 28, 2009, the Bank issued Series IX of Cédulas Hipotecarias Argentinas (CHA). For purposes of covering the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) from potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate less 245 bps and receives a fixed rate (9.1%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early

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termination and no assets are given as collateral. The Bank recorded losses for Ps.4,651 and Ps.10,564 as of June 30, 2017 and 2016, respectively.

- (c) **Currency Swap:** On August 28, 2009, the Bank issued Series X of Cédulas Hipotecarias Argentinas (CHA). For purposes of covering the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) from potential fluctuations in the dollar exchange rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a rate of 2% on a flow of dollars and receives a fixed rate on a flow of pesos (9.25%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded profits for Ps.1,039 and Ps.1,912 as of June 30, 2017 and 2016, respectively.
- (d) **Interest rate swaps:** On December 21, 2009, the Bank issued Series XI of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate less 291 bps and receives a fixed rate (11.33%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded losses for Ps.2,635 and Ps.8,178 as of June 30, 2017 and 2016, respectively.
- (e) **Interest rate swaps:** On July 21, 2010, the Bank issued Series XII of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate plus 10 bps and receives a fixed rate (13.25%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded losses for Ps.3,865 and Ps.11,751 as of June 30, 2017 and 2016, respectively.
- (f) **Interest rate swaps:** On December 2, 2010, the Bank issued Series XIII of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate plus 27 bps and receives a fixed rate (9.279%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded losses for Ps.4,376 and Ps.8,266 as of June 30, 2017 and 2016, respectively.
- (g) **Interest rate swaps:** On March 18, 2011, the Bank issued Series XIV of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 20) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate less 20 bps and receives a fixed rate (9.91%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. The Bank recorded losses for Ps.4,398 and Ps.8,451 as of June 30, 2017 and 2016, respectively.

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20. Securitization of mortgage loans, consumer loans and credit card loans

The Bank created separate trusts under its US securitization program and “Cédulas Hipotecarias Argentina – program”; and a consumer trust under BACS’s Global Trust Securities Program. For each mortgage or consumer trust, the Bank transfers a portfolio of mortgages or consumer loans originated by banks and other financial institutions in trust to the relevant trustee. The trustee then issues Class A senior Bonds, Class B subordinated bonds and certificates of participation. The trust’s payment obligations in respect of these instruments are collateralized by, and recourse is limited to, the trust’s assets consisting of the portfolio of mortgage or consumer loans and any reserve fund established by the Bank for such purpose. The securitizations were recorded as sales, and accordingly, the mortgage and consumer loans conveyed to the trusts are no longer recorded as assets of the Bank.

At the date of these financial statements the following trust funds are outstanding:

	Debt Securities Class A1/AV	Debt Securities Class A2/AF	Debt Securities Class B	Certificates of Participation	Total
BACS III – Issued on 12.23.2005					
Face value in Ps.	77,600		1,200	1,200	80,000
Declared Maturity Date	03.20.2013		09.20.2013	08.20.2015	
BACS Funding I Issued on 11.15.2001 (*)					
Face value in Ps.	-	-	-	29,907	29,907
Declared Maturity Date				11.15.2031	
BACS Funding II Issued on 11.23.2001 (*)					
Face value in Ps.	-	-	-	12,104	12,104
Declared Maturity Date				11.23.2031	
BHSA I Issued on 02.01.2002					
Face value in Ps.	-	-	-	43,412	43,412
Declared Maturity Date				02.01.2021	
CHA VI Issued on 04.07.2006					
Face value in Ps.	56,702	-	-	12,447	69,149
Declared Maturity Date	12.31.2016			12.31.2026	
CHA VII Issued on 09.27.2006					
Face value in Ps.	58,527	-	-	12,848	71,375
Declared Maturity Date	08.31.2017			02.28.2028	
CHA VIII Issued on 03.26.2007					
Face value in Ps.	61,088	-	-	13,409	74,497
Declared Maturity Date	08.31.2024			08.31.2028	
CHA IX Issued on 08.28.2009					
Face value in 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 Ps.	-	-	-	17,224	17,224
Face value en US\$	85,001	-	-	-	85,001
Declared Maturity Date	01.07.2027			06.07.2028	
CHA XI Issued on 12.21.2009					
Face value in 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 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 Ps.	110,299	-	-	5,805	116,104

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Declared Maturity Date	12.10.2029		04.10.2030	
CHA XIV Issued on 03.18.2011				
Face value in Ps.	119,876	-	-	6,309 126,185
Declared Maturity Date	05.10.2030		08.10.2030	

(*) Trusts subject to the pesification of foreign currency assets and liabilities at the Ps.1.00=US\$1 rate established by Law 25561 and Decree 214, as they were created under Argentine legislation. Certain holders of Class A debt securities have started declarative actions against the trustee pursuant to the application of the pesification measures set forth in Law 25561 and Decree 214, in order to maintain the currency of origin of said securities. In these declarative actions, the Bank acted together with BACS as third party. The trustee has duly answered to this claim, being the final resolution to this situation is still pending.

Tarshop S.A. has created several financial trusts under its securitization program (“Valores Fiduciaros Tarjeta Shopping – Global program”) destined to assure its long-term financing accessing directly to the capital market. The assets included in the trusts relate to credit card coupons and advances in cash. The table below presents the trusts issued and outstanding as of June 30, 2017:

	Debt Securities	Certificates of Participation	Total
Series XC– Issued on 03.28.16 Face value in Ps.	150,025	66,163	216,188
Series XCI– Issued on 05.11.16 Face value in Ps.	148,300	68,189	216,489
Series XCII– Issued on 06.07.16 Face value in Ps.	155,700	71,598	227,298
Series XCIII– Issued on 08.17.16 Face value in Ps.	166,715	76,652	243,367
Series XCIV– Issued on 09.30.16 Face value in Ps.	177,248	102,324	279,572
Series XCV–Issued on 11.17.16 Face value in Ps.	186,506	99,985	286,491
Series XCVI–Issued on 04.28.17 Face value in Ps.	180,373	89,440	269,813
Series XCVII–Issued on 06.21.17 Face value in Ps.	222,391	99,448	321,839
Series XCVIII–Privately issued on 05.15.17 Face value in Ps.	170,092	91,588	261,680
Series XCIX–Privately issued on 06.15.17 Face value in Ps.	172,226	92,737	264,963
Tarshop Privado Series I - Privately issued on 08.21.15 Face value in Ps.	1,162,400	329,362	1,491,762
Tarshop Privado Series II - Privately issued on 12.23.15 Face value in Ps.	1,980,800	670,968	2,651,768
Tarshop Privado Series III - Privately issued on 10.15.16 Face value in Ps.	2,014,000	641,652	2,655,652

In all cases, the payment of class B debt securities is subordinated to the payment of the class A securities. In addition, the reimbursement of the participation certificates shall be done once all the class

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A and B securities issued have been settled, to the extent that there are sufficient remaining funds in the trust fund.

As of June 30, 2017 and December 31, 2016, the Bank held in its portfolio the following securities corresponding to the abovementioned trusts:

	June 30, 2017	December 31, 2016
Class A debt securities – CHA VI to CHA XIV	Ps. 99,995	Ps. 97,180
Debt securities – BACS III	13,040	13,517
Debt securities – Tarshop Series LXXXVII	-	7,871
Debt securities – Tarshop Series XCIV	5,545	38,316
Debt securities – Tarshop Series XCV	-	34,620
Debt securities – Tarshop Series XCVIII	37,099	-
Debt securities – Tarshop Series XCVIX	43,634	-
Debt securities – Tarshop Privado Series I	74,887	276,591
Debt securities – Tarshop Privado Series II	244,889	958,652
Debt securities – Tarshop Privado Series III	1,475,807	610,826
Subtotal	<u>Ps. 1,994,896</u>	<u>Ps. 2,037,573</u>

	June 30, 2017	December 31, 2016
Certificates of participation – CHA VI	Ps. 10,506	Ps. 13,095
Certificates of participation – CHA IX	7,802	8,782
Certificates of participation – CHA X	21,632	24,446
Certificates of participation – CHA XI	10,579	11,173
Certificates of participation – CHA XII	11,565	12,386
Certificates of participation – CHA XIII	1,944	3,132
Certificates of participation – CHA XIV	1,661	3,063
Certificates of participation – BHSA I	9,446	8,949
Certificates of participation – BACS III (a)	-	-
Certificates of Participation – Tarshop Series LXXXVI	-	27,681
Certificates of Participation – Tarshop Series LXXXVII	-	25,357
Certificates of Participation – Tarshop Series LXXXVIII	-	36,843
Certificates of Participation – Tarshop Series LXXXIX	-	32,902
Certificates of Participation – Tarshop Series XC	23,891	35,058
Certificates of Participation – Tarshop Series XCI	28,035	35,034
Certificates of Participation – Tarshop Series XCII	32,265	49,677
Certificates of Participation – Tarshop Series XCIII	38,110	56,947
Certificates of Participation – Tarshop Series XCIV	57,832	34,662
Certificates of Participation – Tarshop Series XCV	60,915	35,574
Certificates of Participation – Tarshop Series XCVI	58,659	-
Certificates of Participation – Tarshop Series XCVII	71,976	-
Certificates of Participation – Tarshop Series XCVIII	35,161	-
Certificates of Participation – Tarshop Series XCIX	36,472	-
Certificates of Participation – Tarshop Privado Series I	151,350	177,254
Certificates of Participation – Tarshop Privado Series II	485,060	515,666
Certificates of Participation – Tarshop Privado Series III	482,078	141,762

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	Ps. 1,636,939	Ps. 1,289,443
Subtotal		
Total	Ps. 3,631,835	Ps. 3,327,016

(a) Net of allowances for impairment of Ps. 1,003 as of June 30, 2017 and December 31, 2016.

21. Financial Income and Financial Expenses

Financial Income

The breakdown of "Other" included in the "Financial income" caption is as follows:

	June 30,	
	2017	2016
Premiums for repo transactions.....	Ps. 4,024	Ps. 73,525
Premiums for forward transactions.....	345,234	226,342
Others.....	2,515	1,376
Total	Ps. 351,773	Ps. 301,243

Financial Expenses

The breakdown of the "Other" line included in the "Financial expenses" caption is as follows:

	June 30,	
	2017	2016
Turnover tax on financial income.....	Ps. 362,539	Ps. 310,200
Premiums on swap and repo transactions.....	323,225	31,765
Result from interest rate swaps.....	19,925	47,210
Total	Ps. 705,689	Ps. 389,175

22. Income from Services and Expenses on Services

Income from Services

Other income from services consists of the following for each period:

	June 30,	
	2017	2016
Insurance premiums and services.....	Ps. 1,044,076	Ps. 967,267
Services on loans.....	193,840	121,587
Fees from deposits.....	28,955	50,994
Fees from debit cards.....	21,955	20,351
Fees from PROCREAR.....	133,998	107,895
Other.....	122,567	55,722
Total	Ps. 1,545,391	Ps. 1,323,816

Expenses for Services

Other expenses for services consist of the following for each period:

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	June 30,	
	2017	2016
Insurance claims.....	Ps. 92,099	Ps. 165,906
Services on loans.....	141,929	64,937
Turnover tax.....	90,477	51,809
Aerolíneas Argentinas Co-Branding.....	36,541	30,948
Other.....	32,069	24,291
Total	Ps. 393,115	Ps. 337,891

23. Administrative Expenses

Other fees consist of the following as of the end of each period:

	June 30,	
	2017	2016
Legal, notarial, accounting and tax consulting services.....	Ps. 2,194	Ps. 36,129
Temporary personnel.....	99,554	80,892
Consulting services.....	70,944	63,708
Collection services.....	60,614	47,442
Other.....	40,021	40,749
Total	Ps. 273,327	Ps. 268,920

The breakdown of "Other operating expenses" included in the "Administrative expenses" caption is as follows:

	June 30,	
	2017	2016
Insurance.....	Ps. 8,105	Ps. 9,178
Rent.....	91,701	74,888
Telephony, electricity, and mailing services.....	76,636	75,057
System links	17,001	12,526
Maintenance and conservation of premises and equipment.....	47,105	67,523
Surveillance	39,300	30,998
Other.....	87,980	16,883
Total	Ps. 367,828	Ps. 287,053

24. Other Miscellaneous Income and Miscellaneous Expenses

Miscellaneous Income

Other miscellaneous income is comprised of the following for each period:

	June 30,	
	2017	2016

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Rental income.....	Ps.	3,212	Ps.	1,354
Result on operations with premises and equipment and miscellaneous assets		59,038		1,709
Interest on loans to bank staff.....		19,265		18,536
Results on assets given as collateral.....		25,092		34,051
Other.....		33,766		39,269
Total	Ps.	<u>140,373</u>	Ps.	<u>94,946</u>

Miscellaneous Expenses

Other miscellaneous expenses are comprised of the following for each period:

		June 30,	
		2017	2016
Turnover tax.....	Ps.	65,943	Ps. 60,283
Other taxes.....		73,885	46,818
Donations.....		18,372	42,242
Debit card discounts.....		24,277	13,445
Credit card and others discounts.....		22,651	26,884
Other		40,599	17,697
Total	Ps.	<u>245,727</u>	<u>Ps. 207,369</u>

25. Balances in Foreign Currency

The balances of assets and liabilities denominated in foreign currency (principally in US dollars and Euros) are as follows:

	US\$	Euro	Yen	Total
	(in Pesos)			
Assets:				
Cash and due from banks.....	1,456,532	13,178	-	1,469,710
Government and corporate securities.....	3,058,484	25,921	-	3,084,405
Loans.....	4,163,338	-	-	4,163,338
Other receivables from financial transactions...	1,463,016	-	-	1,463,016
Miscellaneous receivables.....	130,784	-	-	130,784
Items pending allocation.....	1	-	-	1
Total as of June 30, 2017	<u>10,272,155</u>	<u>39,099</u>	<u>-</u>	<u>10,311,254</u>
Total as of December 31, 2016	<u>11,585,443</u>	<u>42,523</u>	<u>9</u>	<u>11,627,975</u>
Liabilities:				
Deposits.....	3,545,158	-	-	3,545,158
Other liabilities from financial transactions....	7,166,114	37	-	6,585,160
Miscellaneous liabilities.....	10,678	-	-	10,678
Items pending allocation.....	25	-	-	25
Total as of June 30, 2017	<u>10,721,975</u>	<u>37</u>	<u>-</u>	<u>10,722,012</u>
Total as of December 31, 2016	<u>10,988,270</u>	<u>38</u>	<u>-</u>	<u>10,988,630</u>

26. Income Tax

In accordance with Section 28 of Law 24,855, the Bank is subject to income tax, except with respect to housing loan transactions made before October 23, 1997, the date of registration of its bylaws with the Superintendency of Corporations.

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The Bank records the charges to income, when applicable, and a provision in its liabilities for the tax applicable to its taxable transactions in the fiscal year to which they refer.

The Bank had a tax net operating loss carry forward of Ps. 143,435 at June 30, 2016.

As of December 31, 2016, accumulated tax carryforwards were Ps.356,663. As of June 30, 2017 the Bank had not raised provisions on account of having failed to use up the above mentioned tax loss carryforward in this period.

27. Presumptive Minimum Income Tax

Minimum notional income tax was created by Law No. 25,063 to be in effect for 10 years as from fiscal year 1998, which term was extended by Law No. 26,545 until December 30, 2019. In addition, Law No. 27,260 in its Section 76 set forth that the tax was to be repealed for the fiscal years beginning on January 1, 2019.

This is a tax complementary of income tax. Minimum notional income tax consists of minimum taxation, which assesses certain productive assets at the tax rate of 1%. The ultimate tax obligation will be the higher of minimum notional income tax or income tax. For financial entities, the taxable basis will be 20% of their computable assets. If in a fiscal year, minimum notional income tax obligation exceeds income tax liability, the surplus will be computable as a down payment of any income tax excess over minimum notional income tax through the next ten years.

Given the provisions of Communication "A" 4295, the Bank capitalized the tax credit based on the income for book and tax purposes on the basis of the Business Plan submitted to the Argentine Central Bank as well as estimates of the main macroeconomic variables and the changes in the financial system for the following ten fiscal years.

The following are the Bank's credit balances at the closing of these financial statements:

Year	Credit balance
2012	897
2016	81,796
	82,693

As of June 30, 2017, Tarshop recorded Ps.119,813 of tax credit.

28. Shareholders' Equity

The following information relates to the statements of changes in the Bank's shareholders' equity.

(a) Common Stock

Prior to June 30, 1997, the Bank's capital stock consisted of assigned capital with no par value owned 100% by the Argentine government. In accordance with the by-laws approved as a result of the conversion of the Bank to a *sociedad anónima*, the Bank's capital stock was established at Ps.1,500,000 and divided into four classes of ordinary common shares.

As of June 30, 2017, the Bank's capital stock consists of:

Class of	Number of	Total %	Voting
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Shareholder	Shares	Shares	Ownership	Rights
Argentine government (through FFFRI) (b)	A	664,818,687	44.3%	1 vote
<i>Banco Nación</i> , as trustee for the Bank's <i>Programa de Propiedad Participada</i> (a)	B	57,009,279	3.8%	1 vote
Argentine government (through FFFRI)	C	75,000,000	5.0%	1 vote
Public investors (c) (d)	D	703,172,034	46.9%	3 votes
		<u>1,500,000,000</u>	<u>100.0%</u>	

(a) The Bank's *Programa de Propiedad Participada* ("PPP") is the Bank's employee stock ownership plan.

Under Decree 2127/2012 and Resolution 264/2013 issued by the Ministry of Economy and Public Finance, the PPP (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.

- (b) Under the Bylaws, the affirmative vote of the holders of Class A Shares is required in order to effectuate: (i) mergers or spin-offs; (ii) an acquisition of shares (constituting a Control Acquisition or resulting in the Bank being subject to a control situation); (iii) the transfer to third parties of a substantial part of the loan portfolio of the Bank, (iv) a change in the Bank's corporate purpose; (v) the transfer of the Bank's corporate domicile outside of Argentina, and (vi) the voluntary dissolution of the Bank.
- (c) For so long as Class A Shares represent more than 42% of the Bank's capital, the Class D Shares shall be entitled to three votes per share, except that holders of Class D Shares will be entitled to one vote per share in the case of a vote on: (i) a fundamental change in the Bank's corporate purpose; (ii) a change of the Bank's domicile to be outside of Argentina; (iii) dissolution prior to the expiration of the Bank's corporate existence; (iv) a merger or spin-off in which the Bank is not the surviving corporation; and (v) a total or partial recapitalization following a mandatory reduction of capital.
- (d) By reason of 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 ordinary Class "D" shares in the Bank with face value Ps.1.00 each, which are available for the term and in the conditions prescribed by the Argentine Companies Law, in its Section 221. The General Ordinary Shareholders' Meeting held on April 30, 2010 resolved to extend for a year, counted as from January 31, 2010, the term for realizing the treasury shares held by the Bank.

On April 30, 2010, the General Extraordinary Shareholders' Meeting resolved to delegate upon the Board of Directors the decision to pay with the treasury shares in portfolio the Stock Appreciation Rights (StAR) coupons resulting from the debt restructuring as advisable based on the contractually agreed valuation methods and their actual market value after allowing the shareholders to exercise their preemptive rights on an equal footing.

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 Stock Appreciation Rights (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.

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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 Stock Appreciation Rights (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 were recorded as 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 a further Ps. 834 were booked as Additional paid-in capital for the difference between the value as added to the entity's equity and the sales value.

As of June 30, 2017, the Bank held 36,634,733 treasury shares, 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.

The Class B shares have been set aside for sale to the Bank's employees in the future pursuant to the PPP on terms and conditions to be established by the Argentine government. Any Class B shares not acquired by the Bank's employees at the time the Bank implements the PPP will automatically convert into Class A shares. The Class C shares are eligible for sale only to companies engaging in housing construction or real estate activities. Any Class B shares transferred by an employee outside the PPP will automatically convert to Class D shares or Class C shares transferred to persons not engaged in construction or real estate activities will automatically convert into Class D shares.

(b) Distribution of profits

No profits may be distributed when any financial year does not produce profits.

Argentine Central Bank Communication "A" 4152 dated June 2, 2004 left without effect the suspension of the distribution of profits established by Communication "A" 3574. However, those banks that proceed to such distribution must be previously authorized by the Financial and Exchange Institutions Superintendency.

Through Communication "A" 4526 dated April 24, 2006, the BCRA established that when the Legal Reserve is used to absorb losses, earnings shall not be distributed until the reimbursement thereof. Should the balance prior to the absorption exceed 20% of the Capital Stock plus the Capital Adjustment, profits may be distributed once the latest value is reached.

For purposes of determining distributable balances, the net difference arising from the book value and the market quotation shall be deducted from retained earnings, in the event the Entity records government debt securities and/or debt securities issued by the BCRA not recorded at market prices, with volatility published by such entity.

Pursuant to its Communication "A" 5072, the BCRA established that no dividend distribution shall be admitted in so far as: a) the amounts deposited as minimum cash requirements on average – in Pesos, foreign currency or in Government securities – were less than the requirements pertaining to the most recently closed position or the position as projected taking into account the effect of the distribution of dividends, and/or b) the amounts deposited as minimum capital requirements were less than the requirements recalculated as previously mentioned plus a 30% increase, and/or c) the Entity has received financial aid from the BCRA on grounds of illiquidity as set forth in Section 17 of BCRA's Charter.

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On January 27, 2012, the BCRA issued Communication "A" 5272 whereby it established that for the calculation of the minimum capital requirement, the minimum capital for operational risk shall be included. On the same date, Communication "A" 5273 was also issued, whereby the BCRA resolved to increase the percentage referred to in the preceding paragraph, subsection b), from 30% to 75%.

Communication "A" 5369 provided that as from January 1, 2013, for the purposes of calculating the position of minimum capitals, the capital requirement for credit risk due to securitizations must be computed over all the transactions outstanding as of the computation date.

On September 23, 2013, the Argentine Congress enacted Law N° 26,983 which amends the Income Tax Law and sets forth that dividends or earnings in money or in kind shall be levied with Income Tax at a 10% tax rate payable in a final and lump sum.

The Ordinary General Shareholders' Meeting, held on April 13, 2011, resolved to distribute the income for the year ended on December 31, 2010 as follows: Ps. 39,063 (20%), to be applied to the legal reserve Ps. 100,000 (61.59%), to be paid out as cash dividends on ordinary shares, and the balance, after the Board's remuneration, to be maintained as retained earnings. On September 20, 2012, the BCRA reported that there were no objections against the Bank's distribution of cash dividends for Ps. 100,000, as requested. For such reason, on October 10, 2012 such cash funds were made available to the shareholders.

The Ordinary General Shareholders' Meeting, held on August 23, 2013, resolved to distribute the income for the year ended on December 31, 2012 as follows: Ps. 68,721, to be applied to the legal reserve; Ps. 30,000, to be paid out as cash dividends on ordinary shares; and Ps. 244,886 to be maintained as retained earnings. This decision has been approved by BCRA.

On April 24, 2014, the Ordinary General Shareholders' Meeting resolved to distribute the income for the year ended on December 31, 2013 as follows: Ps. 84,190, to be applied to the legal reserve; Ps. 42,000, to be paid out as cash dividends on ordinary shares; and Ps. 294,760 to be maintained as retained earnings. This decision has been approved by BCRA on December 23, 2014. At its meeting dated January 7, 2015, the Board of Directors of the Bank resolved that these dividends should be made available to the shareholders as of January 16, 2015.

29. Employee Benefit Plan

The Bank is obligated to make employer contributions to the National Pension Plan System determined on the basis of the total monthly payroll. These expenses are recorded in "Salaries and social security contributions" under the "Administrative expenses" caption in the accompanying consolidated statements of income.

30. Financial Instruments with Off-Balance Sheet Risk

In the normal course of its business, the Bank is party to financial instruments with off-balance sheet risk in order to meet the financing needs of its customers. These instruments expose the Bank to credit risk in addition to amounts recognized in the balance sheets. These financial instruments include commitments to extend credit.

	June 30, 2017	December 31, 2016
Commitments to extend credit		
Mortgage loans and other loans (a).....	Ps. 138,170	Ps. 126,962
Credit card loans (b).....	37,850,530	9,552,596

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Clearing items in process (c).....	743,379	521,662
Other guarantees (d).....	147,890	124,909

- a) Commitments to extend credit are agreements to lend to a customer at a future date, subject to such customers meeting of pre-defined contractual milestones. Typically, the Bank will commit to extend financing for construction project lending on the basis of the certified progress of the work under construction. Most arrangements require the borrower to pledge the land or buildings under construction as collateral. In the opinion of management, the Bank's outstanding commitments do not represent unusual credit risk. The Bank's exposure to credit loss in the event of nonperformance by the other party is represented by the contractual notional amount of those commitments.
- b) The Bank has a unilateral and irrevocable right to reduce or change the credit card limit, thus it considered there is no off-balance sheet risk. In the opinion of management, the Bank's outstanding commitments do not represent unusual credit risk. The Bank's exposure to credit loss in the event of nonperformance by the other party is represented by the contractual notional amount of those commitments.
- c) The Bank accounts for items drawn on other banks in memorandum accounts until such time as the related item clears or is accepted. In the opinion of management, the Bank's risk of loss on these clearing transactions is not significant as the transactions primarily relate to collections on behalf of third parties.
- d) Mainly includes the amounts given as collateral for transactions held by customers.

31. Commencement of summary proceedings

I. Summary proceedings before administrative authorities:

- a. 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; Mario Blejer; 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. Efkhonian 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 BCRA 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 Efkhonian and Jorge Gimeno were separated from the summary proceedings and the former regular director Marcelo G. Cufre 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, Federico León Bensadón and Diego Luis Bossio so that they could be notified of the charges against them, file their defenses and offer evidence. All the directors summoned filed their respective 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

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imposing an administrative penalty. For such reason, the bank has estimated allowances for Ps. 20.

2. On August 11, 2015, the Bank was notified of Resolution No. 76/15, whereby the President of the UIF had ordered the start of summary proceedings against the Bank, 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 FIU Resolution 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 FIU 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, including, among them, the report issued by the BCRA on the plan of risk adjustment and mitigation submitted in due time by the Bank. At the conclusion of this procedural stage, the attorneys-in-fact of the persons subject to the criminal proceedings filed their closing arguments concerning the evidence produced.

Based on the FIU's background on similar cases, the Bank is likely to be imposed an administrative fine. Therefore, it was deemed reasonable to create an allowance for this contingency amounting to Ps. 20, which was booked on October 22, 2015.

3. On February 15, 2016, BHSA was notified of Resolution No. 1014 handed down by the Superintendent of Financial and Foreign Exchange Institutions in order to commence summary proceedings in the terms of Section 41 of the Law of Financial Institutions (Summary Proceedings' File No. 1486) against the Bank and its chairman Mr. Eduardo S. Elsztain on grounds of an alleged breach of the rules under Communication "A" 4490 consisting in failure to report -within the term established by the rules and regulations governing the matter- the appointment of new directors resolved by the General Shareholders' Meetings held on March 27 and on April 24, 2013, and in a delay in filing the documentation associated to those directors. It is worth underscoring that in all cases they were regular and alternate directors appointed by the Argentine Government.

On February 29, 2016, BHSA filed its defenses and produced documentary evidence, all of which is being evaluated by 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. 560, which was booked last June 30, 2016.

4. 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 the Bank, its former Manager Mr. Ricardo José Gonzalez and Mrs. Luciana Sabrina Fusco and Liliana Elisabeth Sabella on grounds of alleged breach of the rules contained in Communication "A" 5318 and 5322, as supplemented, consisting in allegedly selling foreign currency for the amount of US\$ 69,620 agreed upon under a residential mortgage transaction

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without fulfilling the requirements set forth in the regulations then in effect (Communications "A" 5318, 5322, as supplemented).

On November 18, 2016, the relevant defenses and arguments were filed, including the assertion that the alleged breach is not punishable based on the retroactive application of the most favorable criminal law, and the relevant evidence was offered.

Given the current status of the proceedings, and since there are legal and factual arguments that generate reasonable expectations that the physical persons named defendants and the Bank will be acquitted, no allowances have been created.

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 one hand, with the violation of the rules governing financial aid to the Non-Financial Public Sector, with excess over the limits of fractioned exposure to credit risk from the non-financial public sector, with excess in the allocation of assets to guarantee, with failure to satisfy minimum capital requirements and with 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 to the directors recently elected by the shareholders' meetings.

Resolution No. 685 then fined the Bank with Ps. 4,040 and also fined the Bank's 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. Efkhianian and former managers (Gabriel G. Saidón and Enrique L. Benitez) for an aggregate amount of Ps. 51,582. Under this decision, former Statutory Auditor Ms. Silvana M. Gentile was acquitted.

On November 25, 2014, the Bank 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 BCRA 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 BCRA 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. Out this amount, Ps. 53,632 were computed as losses

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for the fiscal year ended December 31, 2015 and Ps. 4,040 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.

2. 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. The relevant defenses and arguments have been filed and evidence has been offered in support of all the defendants subject to the summary proceedings. Due to its related subject matter, the record of this case was joined with Summary Proceedings No. 5529 on Foreign Exchange Matters (File 101,327/10). Therefore, its procedural status is described below.

On October 8, 2013, the Bank was notified of Resolution No. 720 handed down by the Superintendent of Financial and Foreign Exchange Institutions, ordering to commence summary proceedings against the Bank and its Organization and Procedures Manager, Mr. Christian Giummarra, and the former Systems Manager, Ms. Aixa Manelli (Summary Proceedings No. 5529 on Foreign Exchange Matters) in accordance with Section 8 of the Criminal Foreign Exchange Regime Law (*Ley de Régimen Penal Cambiario*) –as signed into law by Decree 480/95- 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. The relevant defenses and arguments were filed and evidence was offered in support of all the defendants subject to the summary proceedings. The BCRA opened the discovery stage, and evidence was produced in due time. Once the discovery stage came to a conclusion, the attorneys submitted their closing arguments. By mid-September, the BCRA sent the summary proceedings (in which the two causes of action were joined) to the courts with jurisdiction over criminal economic matters for the entry of judgment. The intervening court is Federal Court No. 2 with Jurisdiction over Criminal Economic Matters (in charge of Dr. Pablo Yadarola) – Clerk's Office No. 3 (in charge of Dr. Fernando Stockfisz). At this stage in these proceedings, the court ordered the production of further evidence to hand down a better decision. Before this court, a brief describing the system implemented by the Argentine Central Bank to communicate prohibitions against trading foreign exchange was filed. The hearing that must be attended by the defendants contemplated in Section 41 of the Criminal Code was held in court on February 27, 2017, with these individuals in attendance and previous to the passage of judgment.

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In the legal counsel's opinion, at the current status of the proceedings, there are legal and factual arguments that generate reasonable expectations that the physical persons named defendants and Banco Hipotecario S.A. will be acquitted and that therefore, there are low chances that the Bank will be subject to the economic sanctions set forth by the Criminal Foreign Exchange Regime Law (*Ley de Régimen Penal Cambiario*). For such reason, no allowances have been created in this regard.

3. On August 26, 2014, the Bank was notified of the Resolution passed by the Superintendent of Financial and Foreign Exchange Institutions No. 416 dated August 7, 2014 ordering the start of Summary Proceedings No. 5843 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). In the above-mentioned summary proceedings, Banco Hipotecario, its directors (Messrs. Eduardo S. Elsztain; Jacobo J. Dreizzen; Edgardo L. Fornero; Carlos B. Písula; Gabriel G. Reznik; Pablo D. Vergara del Carril; Ernesto M. Viñes; Saul Zang; and Mauricio E. Wior) and former directors (Ms. Clarisa D. Lifsic de Estol and Mr. Federico L. Bensadón), and two former managers (Messrs. Gabriel G. Saidón and Enrique L. Benitez), are charged with failure to comply with the rules disclosed by Communication "A" 3471 (paragraphs 2 and 3) and by Communication "A" 4805 (Paragraph 2.2.) due to certain transfers of currency made abroad between August and October 2008 to guarantee the "CER Swap Linked to PG08 and External Debt" swap transaction for a total of US\$ 46 thousand, without the authorization of the Argentine Central Bank. BHSA has been allowed to review the proceedings (case file No. 100.308/10) which are being handled by the Argentine Central Bank's Department of Foreign Exchange Contentious Matters. The relevant defenses and arguments were filed and evidence was offered in support of all the defendants subject to the summary proceedings. The BCRA opened the discovery stage on March 16, 2015. Evidence was produced and the counsels for the defense's allegations were raised in due time. Upon conclusion of the administrative stage of the proceedings, the case file was sent to the Courts with Jurisdiction over Criminal Economic Matters.

After the resolution by the court of the jurisdictional issues that had been raised on November 18, 2015, in November 2016, notice was taken of the fact that the case is now being heard by Federal Court No. 3 with Jurisdiction over Criminal Economic Matters presided by Judge Rafael E. Caputo, Clerk's Office No. 5, which is to rule upon these summary proceedings.

In the legal counsel's opinion, at the current stage of the proceedings, there are legal and factual arguments that generate reasonable expectations that the physical persons named defendants and Banco Hipotecario S.A. will be acquitted and that therefore, there are low chances that the Bank will be subject to the economic sanctions set forth by the Criminal Foreign Exchange Regime Law (*Ley de Régimen Penal Cambiario*). For such reason, no allowances have been created in this regard.

4. BACS Banco de Crédito y Securitización S.A. has been notified of Resolution No. 401 dated September 7, 2012 handed down by the BCRA'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 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 was imposed on the Bank and individuals fines amounting to Ps. 393 were imposed to its directors (Eduardo S. Elsztain and Ernesto M. Viñes). Such amounts were booked as a loss of the previous fiscal year.

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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 defendants and awarded legal costs against the losing parties.

5. On November 25, 2014, Tarshop S.A. was notified by the Financial Information Unit that summary proceedings had been filed, identified under Resolution No. 234/14, for potential formal violations derived from the alleged non-compliance with Section 21, paragraph a) of Law 25,246 and UIF Resolutions No. 27/11 and 2/12. Summonses were sent to the Company (Tarshop S.A.), its Compliance Officer (Mauricio Elías Wior) and the Directors then in office (Messrs. Eduardo Sergio Elsztain, Saúl Zang, Marcelo Gustavo Cufre and Fernando Sergio Rubín) for them to file their defenses. In the legal counsel's opinion, at the current stage of the proceedings and based on the precedents existing at the UIF in similar cases, it is likely that a penalty be imposed under the scope of the administrative proceedings. For such reason, allowances have been recorded in this regard for Ps.360 during the previous fiscal year.

32. 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 State, 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 of the placement of the Trust Bonds (Valores Representativos de Deuda or VRDs) and cash contributions by the Argentine State 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 him;
- exercise the powers granted to it under the Agreement, and preserve the Trust Assets;

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- 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;
- insure 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.

In compliance with Communication "A" 5392, the Bank has capitalized mortgage loan origination expenses under this program (see note 2.10).

33. Capital Market Law

On December 27, 2012, the Capital Market Law No. 26,831 was promulgated, considering a comprehensive amendment to the public offering regime set forth by Law No. 17,811.

Insofar as concerns the matters related to the Company's business, this law broadens the regulatory powers of the Argentine Government in connection with the public offering of securities, through the Argentine Securities Commission (CNV), and concentrates in this agency the powers of authorization, supervision and oversight, disciplinary authority and regulation of all capital market players; furthermore, it establishes that intermediary agents willing to deal in a securities market are no longer required to be members thereof, thus allowing the entry of other participants, and delegates to the CNV the power to authorize, register and regulate the various categories of agents.

On August 1, 2013, Decree 1023/2013, partially regulating the Capital Markets Law, and on September 9, 2013, General Resolution No. 622 of the CNV, approving the related regulations, were published in the Official Gazette.

These regulations implement a register of agents that participate in the capital market. To take part in each of the activities regulated by this resolution, agents had to be entered in that register in such capacity by March 1, 2014.

For those agents who have applied for registration with the final registry before March 1, 2014 to comply with all the requirements, on February 7, 2014, the CNV extended the term until September 30, 2014. On June 23, 2014, we were notified by Mercado Abierto Electrónico S.A. that CNV mandated that the Agents registered with MAE S.A. who have proceedings underway before CNV for registration as Agent in any of the categories authorized by currently applicable rules and regulations may continue to do business normally up and until they start operating in the new Agent category as per the CNV rules (N.T.2013).

In turn, pursuant to CNV Resolution No. 17,392 dated June 26, 2014, the Bank was registered with the Registry of Financial Trustees prescribed by Sections 6 and 7 of Chapter IV, Title V of the Rules, under No. 57. And, on September 19, 2014, pursuant to CNV Resolution No. 2122, the Bank has been registered as Settlement and Clearing Agent and Comprehensive Trading Agent No. 40.

Pursuant to the provisions of Section 45 of Law 26,831 and paragraph a), Section 20, Article VI, Chapter II, Title VII, and subsection j) of Section 7, Article IV, Chapter IV, Title V of Resolution No.622 of the CNV, it is made known 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 capital was duly paid in as of June 30,

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2017 and the liquid balancing account is identified –through Argentine Central Bank Bills (Bonar2024) – Government Bond carried at fair market value - See Exhibit “A” to these Financial Statements, as per the following detail:

Date	Amount Ps. As per CNV Matrix	Governme nt Security	Kind CV	Amount	Listing	Valuation
06/30/2017	10,500,000.00	AY24	5458	1,000,000	19,205	19,205,000

On October 22, 2014, the Board of Directors of Mercado de Valores de Buenos Aires S.A.(the “Merval”) approved the registration of the Bank on the Mercado de Valores de Buenos Aires S.A.’s Registry of Agents as Settlement and Clearing Agent and Trading Agent – Comprehensive (ALyC and AN as per the Spanish acronyms).

On December 23, 2014, BHSA was authorized to operate under the provisions of Merval Communication No. 15594.

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 the composition of BACS’ equity as of the end of the period was correct and that the liquidity requirement takes the form of Peso-denominated Lebac for Ps. 14,955.

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. 15739 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 Common 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.

As of June 30, 2017, BH Valores S.A. is registered with the CNV as a Settlement and Clearing Agent in its own. According to the minimum requirements laid down, BH Valores S.A.’s minimum shareholders’ equity exceeds the amount prescribed by CNV’s General Resolution No. 622 and its composition is correct as of year-end. As to the liquidity requirements, they have been satisfied through sight account number 300000000366874 of the Bank, which as of the date of these financial statements, amounts to Ps. 2,996.

In view of the latest tax, regulatory and operational developments that have modified BH Valores S.A.’s commercial strategy and decreased the competitive advantages of running such a business, at the meeting held on May 6, 2015, the Board of Directors of BH Valores S.A. resolved to substantially diminish the volume of operations with an eye towards suspending the operations of Sociedad BH Valores S.A. in the future to prevent two structures that are presently highly similar in terms of their functions and have been rendered redundant within the same conglomerate from overlapping.

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On April 12, 2017, the Bank was given notice by BYMA (Bolsas y Mercados Argentinos S.A.) on the migration of Merval's operating processes to such market, according to the authorization granted by the CNV through Resolution No. 18,424 dated December 26, 2016.

34. Resolutions issued by the Argentine Central Bank

Financing line for production and financial inclusion

Under Communication "A" 6084 dated October 21, 2016, the Argentine Central Bank sets forth the guidelines of the QUOTA in force for the first half of 2017.

The Argentine Central Bank establishes that financial institutions subject to the provisions of this circular shall be required to record, as from 1/1/17 and until 6/30/17, a lending balance under this credit line amounting to at least 18% (during the second half/16 it was 15.5%) of the deposits from the non-financial private sector in pesos, calculated taking into account the monthly average daily balances of November 2016.

At the closing of these financial statements the Bank had recorded an average of Ps. 2,580,642 as principal and interest under the Bank's assets in connection with this line.

Supplementary services to the financial business

Pursuant to Communication "A" 5700, the Argentine Central Bank included changes in the rules on "Supplementary services to the financial business and permitted activities", "Consolidated supervision" and "Minimum capitals of financial institutions". As concerns the scope of the supplementary services, financial institutions are allowed to hold interests in the stock capital of companies engaged in the development of two of the subject activities to the extent that, in the opinion of the SEFyC, both activities are economically related to each other and there are no legal inconsistencies that would prevent them from being developed jointly.

The subject activities include the issuance of credit, debit and similar cards. This notwithstanding, provided that 25% of the total financing amount as of the closing date of each month is not exceeded, loans not subject to the credit card law may be extended to financial services users, in which cases the provisions on "Interest rates applicable to lending transactions" shall be complied with.

On the other hand, with respect to the calculation of the regulatory capital (responsabilidad patrimonial computable), a schedule has been established in order to compute ownership interests in companies whose corporate purpose consists in providing financial assistance in the form of leases and document discounts, temporary acquisition of ownership interests in companies, issuance of credit cards, cash withdrawal cards and similar, to name but a few, as items allowed to be detracted from Tier 1 ordinary capital.

Date	Deduction Percentage
Until May 2015	0%
Starting June 2015	25%
Starting June 2016	50%
Starting June 2017	75%
Starting June 2018	100%

Pursuant to its Communication "A" 6277, on July 14, 2017, the Argentine Central Bank introduced certain changes in the rules that govern the services that supplement financial activities and permitted activities, effective as of July 17, 2017. Among the most relevant changes, there is the suppression of

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the cap that applies to consumer loans granted by issuers of credit cards, which amounts to 25% of total funding, and the possibility of acquiring companies engaged in the development and supply of services to the financial sector based on technology and/or electronic payment services.

Minimum capital requirements in Financial Institutions – Adaptation to the standards laid down by the Basel Committee on Banking Supervision

Pursuant to Communication “A” 5831, the Argentine Central Bank modified its rules concerning “Minimum capital requirements in Financial Institutions” and adapted several paragraphs to reflect the standards laid down by the Basel Committee on Banking Supervision.

The adaptation spans the computation of monthly stand-alone and consolidated bases, limits on maximum exposure to a single debtor, margin calls, tranche coverage, accounting treatment to be afforded to credit risk hedges, derivatives, etc. In addition, it also lays down the guidelines to manage financial institution risks.

Besides, it adds a schedule to be observed in order to detract investments in instruments computable as regulatory capital in companies that render services ancillary to financial services which are not under consolidated supervision and insurance companies

Date	Percentage to be deducted
Starting December 2015 to December 2016	40%
Starting January 2017	70%
Starting January 2018	100%

Protection of financial services users

Pursuant to its Communication “A” 5928, on March 21, 2016, the Argentine Central Bank broadened the scope of the rules concerning “Protection of financial services users”. Now, Section 2 of these rules, “Basic rights of financial services’ users”, sets forth that effective September 1, 2016, financial institutions shall not be allowed to collect from users any type of commission and/or charge in connection with life insurance over debit balances and must acquire insurance over debit balance with coverage in the event of death or total permanent disability concerning the funding extended to individuals. Alternatively, institutions are allowed to self-insure risks stemming from users’ total permanent disability and death and such coverage must totally repay the amounts due.

35. BHN Inversión S.A.’s dividend distribution

On March 9, 2016, the Ordinary Shareholders’ Meeting of BHN Sociedad de Inversión S.A. approved the payment of dividends in cash and/or government securities for Ps. 650,000 and empowered the Board of Directors to make the relevant distribution as and when they deem it convenient during fiscal year 2016.

On March 30, 2016, BHN Inversión S.A. made the first payment of dividends to the Bank in government securities for Ps. 330,000 and on November 17, 2016, it made the second payment of dividends in government securities for Ps. 320,000.

At the Board Meeting of BHN Sociedad de Inversión dated November 29, 2016, it was unanimously resolved that, based on the review of the special Financial Statements as of September 30, 2016, as approved by the Board of Directors on November 15, 2016, interim dividends would be paid for Ps.

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150,000 against the net income for the current fiscal year. On December 7, 2016, these interim dividends were paid in government securities.

On March 30, 2017, the Shareholders' Meeting approved a payment of dividends in cash and/or government securities for Ps. 900,000, and ratified the payment of interim dividends for Ps. 150,000 referred to in the preceding paragraph. The Board of Directors was also authorized to distribute the remaining balance within the current year, in the manner and at the time it may deem convenient.

36. BACS Banco de Crédito y Securitización S.A. - Authorization of the BCRA for the entity to be allowed to do business as a first-tier commercial bank

On October 20, 2015, the Extraordinary General Shareholders' unanimously approved to:

- Delegate in the Board of Directors the broadest powers to take all steps, events and presentations necessary for the purposes of processing the license to operate as a commercial bank of first grade to the BCRA and also prepare, approve, manage and execute all documentation -whether public or private instrument- that is required by the institution for the purpose of the authorization, and
- Authorize the Board of Directors to delegate the powers mentioned in the preceding point in one or more of its members or one or more of the managers of the company

On March 14, 2017, BACS' Board of Directors was served notice of a resolution passed by the Board of Directors of the Argentine Central Bank on March 3, 2017, pursuant to which BACS was expressly allowed, under the terms of Article 7 of the Financial Institutions Law, to do business as a first-tier commercial bank.

37. Supplementary services to the financial business

Pursuant to Communication "A" 5700, the Argentine Central Bank included changes in the rules on "Supplementary services to the financial business and permitted activities", "Consolidated supervision" and "Minimum capitals of financial institutions".

As concerns the scope of the supplementary services, it is allowed to hold interests in the stock capital of companies engaged in the development of two of the subject activities to the extent that, in the opinion of the SEFyC, both activities are economically related to each other and there are no legal inconsistencies that would prevent them from being developed jointly.

The subject activities include the issuance of credit, debit and similar cards. This notwithstanding, provided that 25% of the total financing amount as of the closing date of each month is not exceeded, loans not subject to the credit card law may be extended to financial services users, in which cases the provisions on "Interest rates applicable to lending transactions" shall be complied with.

On the other hand, changes are introduced in the calculation of the regulatory capital (responsabilidad patrimonial computable) to reflect the impact of these amendments.

As a result of such Communication, on March 16, 2015, Tarshop SA's General Extraordinary Shareholders' Meeting approved an amendment to its corporate purpose. According to such amendment, the company may grant and market consumer loans and consumer credits and financing for users of financial services pursuant to the Argentine Central Bank's rules and regulations, handle the collection of utility bills, credits and similar items, render payroll and supplier payment and revenue collection services.

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In such regard, on June 3, 2016, the Argentine Central Bank awarded the Company a Provisional Authorization Code in the Register of Other Non-Financial Credit Providers, and thus allowed it to start granting consumer loans, in line with the amendment to the corporate purpose recorded with the General Superintendency of Corporations on January 8, 2016 under number 437, book 77 of Corporations, and authorized by the Argentine Securities Commission under Resolution No. 17,930 dated December 21, 2015.

38. Acquisition of interest in “Comparaencasa.com” by BHN Inversión S.A.

On December 19, 2016, the Board of Directors of BHN Sociedad de Inversión S.A. approved the acquisition of a 12.5% interest in Comparaencasa Ltd., controlling company of Comparaencasa S.A., which operates under the name of “comparaencasa.com” by making an investment of US Dollars 1,000,000. The transaction includes the issuance by Comparaencasa Ltd. of warrants that grant the company the right (but not the obligation) to subscribe for shares in future investment rounds for up to US Dollars 3,000,000.

39. 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.

Recently, 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.

40. Subsequent events

Negotiable obligations

The following table shows the amount, interest rate and maturity date of each series issued after June 30, 2017:

	Issue date	Maturity date	Annual interest rate
Banco Hipotecario S.A.			
Series XLVI (Ps. 496,855)	08/09/17	02/09/19	3 months 26.75% and then Badlar +425bp
Series XLVII (US\$ 7,233 thousand)	08/09/17	08/09/19	4.00%
BACS Banco de Crédito y Securitización S.A.			
Series XIV (Ps. 227,886)	09/25/17	03/25/19	Badlar +475bp
Series XV (US\$. 10,141)	09/25/17	09/25/19	4.74%
Tarshop S.A.			
Class XI (Ps. 346,996)	07/12/17	01/12/19	Badlar +500bp

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