BANCO
Hipotecario

ANNUAL REPORT FOR FISCAL YEAR ENDED DECEMBER 31, 2019, INCLUDING CHAIRMAN'S LETTER TO THE SHAREHOLDERS, SUSTAINABILITY REPORT, AND REPORT ON CORPORATE GOVERNANCE CODE

LETTER TO THE SHAREHOLDERS OF BANCO HIPOTECARIO SA

On behalf of the Board of Directors of Banco Hipotecario, I am pleased to submit to you the Annual Report for fiscal year ended December 31, 2019, and the Sustainability Report and the Report on the Corporate Governance Code, which are incorporated as Exhibits hereto.

Let me take this opportunity also to relay to you some positive aspects of the actions taken during the fiscal year under review, which allowed Banco Hipotecario to post a profit of around AR$ 1,781.5 million through its several lines of business.

In this respect, the shareholders should note that the project to distribute profits to be proposed at our Shareholders' Meeting is included in the Exhibit entitled "Project for the Distribution of Profits" enclosed to this Annual Report.

In the opinion of the Board of Directors, and also in my personal view, the profits posted by the Bank are satisfactory in the light of the challenging economic landscape in which its business was immersed. In this respect, some highlights of the year include:

(a) In 2019, elections were carried out in Argentina to renew the Executive and Legislative Branches' authorities at the federal level and, in some cases, at several provincial jurisdictions and the City of Buenos Aires.

Such election process commenced on August 11 with the primaries, known in Argentina as "PASO," to elect the running candidates for the final elections held on October 27, and which resulted in the victory of a new President for Argentina from the opposition to the then current ruling party. The new President took office on December 10.

(b) On the local economic front, some of the main variables experienced imbalances, leading to substantial local currency depreciation, inflation soaring well above expected levels, and high borrowing rates causing constraints among small-to-medium sized enterprises (SMEs) and consumers, resulting in higher levels of arrears relative to past years.

Of particular note is the fact that on September 1, 2019 the Argentine government reinstated the currency exchange controls that had been lifted on December 16, 2015.

(c) The international environment is currently disrupted by the trade war between the United States and China, as both powers have designed increasingly protectionist policies affecting the international trade of their respective products and services. The actions both countries are actively taking affect the trade of products and services from emerging and border countries, including Argentina.

I do not want to miss the chance to express, on behalf of the Board of Directors and on my own behalf, that our actions were inspired by a strong commitment to the community. The Bank has encouraged collaborative work and identified opportunities for building the common good. Helping people access a home means helping them make a dream come true. As an organization, our challenge is assuming an active social role as true change agents.

The financial scope of our business was built upon the social and environmental performance of our operations, including the entire value chain. The information that feeds our Sustainability Report — which is part of the Annual Report —is the result of an active involvement by all our employees, who display a genuine sense of belonging.

The accompanying Annual Report describes in detail the Bank's balance sheet and financial position for fiscal year 2019, together with some of the financial, commercial, and sustainability strategies expected to be developed in 2020.

Lastly, the Board of Directors wishes to extend their gratefulness to all those who have contributed to our management actions and also strive for Banco Hipotecario to keep serving the community.

City of Buenos Aires, March 2, 2020

On behalf of the Board of Directors of Banco Hipotecario

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1. MACROECONOMIC CONTEXT.

In 2019, elections were carried out in Argentina to renew the Executive and Legislative Branches' authorities at the federal level and, in some cases, at several provincial jurisdictions and the City of Buenos Aires. Such election process commenced on August 11 with the primaries, known in Argentina as “PASO,” to elect the running candidates for the final elections held on October 27, and which resulted in the victory of a new President for Argentina from the opposition to the then ruling party. The new President took office on December 10.

The election process brought about additional uncertainty and stress to an already weak economy, as the major presidential candidates had diverging and competing views of the economic and social path Argentina should head for.

Since late 2018 until the primaries, Argentina had been implementing an economic policy known as "double zero", encompassing the contraction of the money supply—monetary base zero growth—and the fulfillment of a zero primary fiscal deficit target set out in the National Budget Law. Even though the primaries were not meant to elect a new president, the results revealed voters’ discontent with the then ruling party's economic policy. Hence, immediately thereafter, the government started to ease its monetary policy, while establishing controls and monitoring actions on the price of certain goods and services deemed essential for the household economy. As part of such controls, effective since September 1, 2019 the government reinstated the currency exchange controls that had been lifted on December 16, 2015.

Finally, despite the economic and political tensions prevailing in the domestic market during most of 2019 as a result of economic misalignments and the election process, certain sectors of the Argentine economy remained healthy, such as the exporting sector and, primarily the agricultural and livestock sector.

1.1. International Context.

Foreign trade is currently disrupted by the trade war between the United States and China, as both powers have designed increasingly protectionist policies affecting the international trade of their respective goods and services. The actions both countries are actively taking have an impact on the trade of products and services from emerging and border countries, including Argentina.

Furthermore, as a consequence of the instability intrinsic to the Argentine economy—with country risk reaching 2,250 points,—the international voluntary debt market has closed to the country, leading the Argentine government to resort to the International Monetary Fund (IMF) for assistance, agreeing upon a facility line for approximately US$ 44,000 million worth. Against this economic backdrop, towards the end of the year, the Argentine government was forced to re-profile certain national public indebtedness.

In light of the aforementioned, certain sources of risks may arise in the future, constraining the financial channel (growing risk aversion and portfolio rearrangement, with the ensuing impact on prices for emerging economies' assets, including their currencies and interest rates) and/or the commercial channel (exerting pressure on emerging economies' activity levels). These constrains—which, depending on their nature, will have a varying impact on interest rates, exchange rate and activity—may affect the performance of the financial system, primarily, due to their potential impact on the dynamics of the local financial intermediation process and the credit risk undertaken by banks which, in turn, could create tension on the Argentine economy as a whole.

1.2. Local Context.

In recent months, in the wake of the substantial depreciation of the local currency, inflation rising well above expected levels, and high borrowing rates causing constraints among small-to-medium sized enterprises (SMEs) and consumers, resulting in higher levels of arrears, the financial system proved highly resilient against the challenging landscape, and kept providing financial intermediation and payment services without disruption, while maintaining prudential liquidity and solvency buffers, within a regulatory framework in line with international standards. The whole set of financial institutions conducted their business amidst growing uncertainty—inherent to the recent election process—, triggering increased FX volatility, a flight of foreign-currency deposits, and surging pressure on prices for government securities.

The Ministry of Finance and the Central Bank adopted certain measures seeking to curb the impact of volatility on inflation and economic activity. In late August—in face of the limited access to the debt market—the Argentine government rescheduled the repayment of Treasury Bills and announced it would engage in a voluntary extension of government security maturities. The Central Bank limited the formation of external assets with not specific allocation and revised the terms for the settlement of exports proceeds, without disrupting the ordinary operation of foreign trade or the ability to use available balances in bank accounts. These rules should necessarily consider the impact on the FX market and international reserves, as well as on the Argentine financial system's depositors.

Despite the pressures on funding terms and composition—including an approximately 40% decline in balances of private-sector deposits denominated in foreign currency since mid-August until year-end—the financial system's liquidity levels remained in line with historical records high, with no substantial changes vis-a-vis the Financial Stability Report for the first six months of 2019.

It should be considered that, pursuant to macroprudential regulation in force, foreign-currency deposits are primarily matched by foreign-currency loans granted to exporters and liquid assets denominated in that currency. On the other hand, the system's solvency ratios rose as compared to March 2019, standing above minimum prudential local requirements—with indebtedness levels well below internationally recommended levels—, and suitable additional capital buffers.

In the face of the prevailing economic weakness, financial intermediation activities declined vis-a-vis the past year. With decreasing private-sector lending, the NPL ratio kept rising, primarily, within the category of corporate loans. Given Argentine banks' limited gross exposure to credit risk and due to their high provisioning levels, the share of the financial system's capital that might be affected by an increase in the NPL ratio is too low.

In late 2019 and early 2020—in light of the recent changes in the main variables of the financial sector and the real sector of the economy—the financial system faced a challenging operating scenario. As to external risks, local uncertainty factors are giving rise to new tensions over financial markets and over aggregate activity levels, with potential impact on the financial system's intermediation process.

Nevertheless, given the relative strengths currently boasted by the Argentine financial system, extremely serious risks should be realized for local financial stability to be substantially affected. Against this backdrop, the Central Bank will continue embracing a macroprudential policy approach, reinforcing the financial system's monitoring process for early identification of risk sources and vulnerabilities that might adversely affect the economy as a whole.

1.3. Status of the Financial System.

Even though the developments in recent months triggered the realization of certain risk factors, the financial system has continued operating with substantial strength, within a regulatory framework in line with international standards. On the one hand, the financial system's exposures to risks inherent to its own operations remain limited. In this regard, the depth of banking lending to the private sector is limited and has been declining, while public-sector exposure is relatively low. Unsophisticated traditional banking operations prevail, term transformation in banks' balance sheets is limited, direct interconnection among entities is scarce, and financial intermediation in pesos occurs, almost independently from financial intermediation in foreign currency. On the other hand, the financial system maintains substantial prudential liquidity and solvency buffers. These buffers—which provide resilience to the aggregate financial system—will be generally discussed below and in further detail in subsequent sections.

At year-end, the financial system's liquidity in terms of deposits remained in line with records high, at around 58% vis-a-vis the levels referred to in the Financial Stability Report issued by the Central Bank as of previous year-end. This means that no substantial changes have occurred in the liquidity ratio in pesos and in foreign currency.

Some relevant highlights include: (i) coverage in foreign currency remained high, despite the flight of slightly more than 40% of private-sector deposits denominated in that currency from mid-August up to year-end. In addition, local liquidity ratios arising from international recommendations remained high, surpassing the minimum levels required by applicable laws and regulations; (ii) the financial system's solvency ratio remained well above minimum prudential requirements. Regulatory capital (RPC) accounted for 16.3% of risk-weighted assets (APR) as of September 2019. All financial institutions had met additional capital buffer requirements almost in their entirety. In addition, the sector's indebtedness ratio remains well below the maximum level permitted under local prudential regulations in line with international recommendations; (iii) banks' exposure to the public sector is low, primarily as a result of the prudential regulations implemented at the time to limit this source of credit risk. The aggregate public sector maintains a net credit position vis-a-vis the financial system; (iv) banks' NPL ratio kept rising, though at a slower pace than during the first six months of the year. Non-performing loans to the private sector account for approximately 5% of total loans; and (v) micro and macroprudential regulations applicable to the Argentine financial system address the distinctive features of the local context, without losing sight of best international practices. In particular, in 2019 the Basel Committee, as part of the framework of the Regulatory Consistency Assessment Programme or RCAP, implemented the Large Exposures (LEX) and Net Stable Funding Ratio (NSFR) framework.

The above-described aspects should allow the financial system to cope with the expected challenges in the months ahead with relative strength.

2. BALANCE SHEET AND INCOME STATEMENT, DISCUSSION AND ANALYSIS OF OPERATIONS.

2.1. Balance Sheet (a).

Consolidated Balance Sheet - Presented on a Comparative Basis (Figures in thousands of pesos)	For the fiscal year ended December 31, 2019	December 31, 2018	Change (%) Annual
Assets			
Cash and deposits held in banks	18,474,655	8,832,786	109.2%
Debt securities at fair value through profit or loss	7,272,196	19,287,877	(62.3)%
Derivative instruments	4,220	69,478	(93.9)%
Repo transactions	4,189,724	589,474	N/A
Other financial assets	2,292,693	2,311,097	(0.8)%
Non-financial public sector	37	29,146	(99.9)%
Financial sector	15,177	415,506	(96.3)%
Non-financial private sector and residents abroad	40,363,591	43,122,012	(6.4)%
Loans	40,378,805	43,566,664	(7.3)%
Other debt securities	4,792,663	1,700,018	181.9%
Financial assets pledged as collateral	3,244,083	2,007,114	61.6%
Investments in subsidiaries, associates and joint ventures	2,522	2,522	0.0%
Bank premises & equipment	1,707,006	1,502,557	13.6%
Other assets	7,434,477	4,691,978	58.5%
Total assets	**89,793,044**	**84,561,565**	**6.2%**
Liabilities			
Deposits	35,721,788	29,307,580	21.9%
Liabilities at fair value through profit or loss	599,025	751,511	(20.3)%
Derivative instruments	14,270	136,281	(89.5)%
Repo transactions	1,002,478	65,188	N/A
Other financial liabilities	7,238,302	7,547,776	(4.1)%
Financing from the Central Bank and other financial institutions	171,125	657,696	(74.0)%
Negotiable obligations issued	29,035,841	31,660,467	(8.3)%
Current income tax liabilities	266,759	434,006	(38.5)%
Subordinated negotiable obligations	-	-	N/A
Provisions	474,743	306,876	54.7%
Deferred income tax liabilities	-	-	N/A
Other non-financial liabilities	3,587,521	3,603,000	(0.4)%
Total liabilities	**78,111,852**	**74,470,381**	**4.9%**
Shareholders' equity attributable to non-controlling interests	280,594	292,384	(4.0)%
Shareholders' equity attributable to the controlling company	**11,400,598**	**9,798,800**	**16.3%**
Total shareholders' equity	11,681,192	10,091,184	15.8%

Note (a): The items and amounts as presented in the balance sheet included in this document do not necessarily match those in the Entity's financial statements which are prepared in line with the Argentine Central Bank's rules.

2.2. Lending Products.

As of December 31, 2019, the Bank's assets totaled AR$ 89,793.0 million, a 6.2% increase vis-a-vis the AR$ 84,561.6 million recorded in 2018. Out of this total balance, the item Loans accounts for 45% of total assets, or AR$ 40,378.8 million in nominal terms, equivalent to a 7.3% decline relative to the AR$ 43,566.7 million recorded in 2018.

2.2.1. Mortgage Loans.

Mortgage loans are the Bank's hallmark product, while they are also an anchor product for they help build a long-term relationship with customers.

In 2019, the Bank strengthened the origination of UVA-linked mortgage loans out of its own equity. These loans are primarily intended to fund the construction, acquisition, completion and enlargement of first and second homes for the general public and customers with payroll accounts at the Bank. In addition, the Bank continued pursuing the development of the PRO.CRE.AR *Solución Casa Propia* program.

During the year under review, the Bank made further improvements in the digital origination channel to enhance customers' experience and shorten credit origination terms.

As concerns the PRO.CRE.AR *Solución Casa Propia* program, in 2019 the Bank completed the origination of mortgage loans for beneficiaries of PRO.CRE.AR *Ahorro Joven* program, out of its own equity. With this program, beneficiaries wishing to buy a home, but not having the required upfront payment, could save that money during a term of 12 months through UVA-linked time deposits. The Argentine government grants a subsidy to beneficiaries of this program, based on the amount of savings achieved at the time the mortgage loan is granted. The Bank offered a preferential rate on the mortgage loan to qualifying beneficiaries to help them buy a home, considering their formal, semi-formal and informal income.

Besides, the Bank is finalizing a new project named “Third Party Financing” under which it will manage the funds of any party interested in originating mortgage loans, using cash management and credit origination services. This service will be available since early 2020.

Finally, it should be noted that, in fulfilling its core and hallmark mission of helping Argentinians to make the dream of having their "own home" come true, during its over 133 years' track record, Banco Hipotecario has managed over 1.8 million mortgage loans, which have been granted with its own and third party's equity. In turn, Banco Hipotecario has provided assistance to several governmental organizations, such as provincial housing departments and the national housing fund, in handling thousands of credit facilities aimed at providing home solutions.

2.2.2. Personal Loans.

Banco Hipotecario set an ambitious origination target for 2019. Despite the fact that such goal could not be achieved, the delivered results were quite acceptable in light of the prevailing economic landscape in Argentina, with 7,604 personal loans granted, accounting for $453 million, or an 88% decrease compared to 2018. This product is indicative of a 1.39% market share in terms of stock and approximately 0.25% in terms of monthly origination. At year-end, the stock of personal loans amounted to $5,468 million.

Currently, our retail customers with fixed-rate personal loans are offered financing payable in up to 80 months—at present, the authorized term is up to 60 months—for an aggregate amount of up to AR$ 1 million.

Customers are offered and can acquire this product primarily at our branch network, by telemarketing sales to prospects, or at Homebanking for preexisting customers.

We also offer credit to our customers within the microfinance segment to make minor home repairs. These credit facilities are at fixed rate and payable in up to 60 months, for an aggregate principal amount of up to AR$ 30,000.

At the same time and as a result of the merger of Tarshop into Banco Hipotecario, the portfolio of loans originated by such company was incorporated in the Bank's assets. At year-end, such loan portfolio amounts to approximately AR$ 1,066 million in outstanding balances.

From June to September 2019, the Bank acquired the stock of loans managed by Tarshop, which, at first, resulted in an increase in the loan loss provision associated with this product. The personal loan portfolio deterioration started to recover at the beginning of the second half of the year. The current trend is indicative of a better quality new portfolio compared to average origination in 2017 and 2018, including the adoption of corrective measures aimed at collection proceedings, resulting in a monthly decline in the NPL ratio.

Originations were restricted as a consequence of the new credit policies aimed at approving lines only for customers with best risk profiles and preexisting credit facilities and/or those depositing wages at the Bank (Payroll Account).

2.2.3. Credit Cards.

In 2019, the Bank continued pursuing actions to take actions to make the product cost-effective, by reducing expenses across the stock, such as funding costs through bundling, automatic debit enrollment, reduction of float days, and origination focused on digital channels.

Besides, the Bank became a major member to VISA International, which entitled it to choose a different processor, change the invoicing arrangement, and cash (based on volume) several incentives from the brand to be able to develop the portfolio. In turn, the Bank deployed Contactless technology for all plastic issuances, excluding portfolios from the co-branded operations with Hipermercado Libertad and the former Tarshop.

The Onboarding - Buhobank channel was included as part of the existing origination channels (branches and telemarketing). At this platform, customers may self-apply for onboarding through an entirely electronic process.

At the end of fiscal year 2019, the Bank had issued a total of 732,552 credit cards with account statements accounting for a volume of AR$ 17,952 million, maintaining the array of VISA products (national, international, Gold, Platinum and Signature).

Finally, and as mentioned above, as a result of the merger with Tarshop, the Bank incorporated the company's credit card portfolio under a new cobranding agreement, similar to the one in place with Hipermercado Libertad. These cards are classified as a consumer finance product designed for medium-to-low income customers, making the volume of transactions grow substantially, from 750,000 active customers to over 900,000 active customers.

2.2.4. Insurance Business.

As an Insurance Agent, at year-end we completed 152,000 sales, with a portfolio of 686,000 current insurance policies. Accrued premiums for the year amounted to AR$ 1,539 million, as a result of our portfolio marketing strategy, cross-sales to new customers gained by our branch network, and the inclusion of new insurance lines to the offering, such as personal property insurance and comprehensive business insurance for the Businesses and Professionals segment.

This is also the result of price adjustments on new sales, and the spread derived from the portfolio price adjustments following the change in the re-pricing methodology.

We also posted fee income as a result of promotional actions and customer referrals for the multi-assistance home insurance offering. The fees derived from this business line amounted to AR$ 17.5 million.

Finally, our indirect subsidiaries—BHN Vida SA and BHN Seguros Generales SA—deliver insurance-related services; therefore, net income from BHN Sociedad de Inversión SA (the insurance subsidiaries' controlling company) is disclosed under miscellaneous earnings in the Bank's financial statement.

2.2.5. Corporate Loans.

In 2019, corporate loan management was focused on preventing arrears and recovering past due balances. Credit offering was targeted at customers with reciprocal transactional business.

Against this backdrop, total assets (in pesos, dollars converted into pesos, and UVAs converted into pesos) remained steady relative to 2018 at around AR$ 10,100 million.

Even though balances remained stable in relative terms, changes by currency displayed declines by AR$ 920 million and US$ 56 million, respectively.

As part of our commercial strategy, we have maintained a balanced portfolio in terms of terms, currencies and rates, with adequate exposure to credit risk.

2.2.6. SMEs Loans.

The Bank continued to consolidate the SME segment during the year 2019 by developing new customers, consolidating the relationship with the existing ones, and developing and hiring human capital with expertise in this segment, particularly, at branches, with a view to increase its footprint in the short term.

The SME segment has over 3,000 customers from a broad variety of segments, 575 of whom have agreed-upon credit facilities in the amount of AR$ 4,700 million. At year-end, the Bank's credit exposure to SMEs was around AR$ 950 million, with secured loans accounting for 65% of that total.

Also during the year, the Bank deployed a transactional business growth strategy, offering competitive and comprehensive product offerings primarily including Payroll Account Services, Collection Systems, Payments to Suppliers, Tax payments to the Argentine tax authorities (AFIP), and Payments by the Link-branded ATM Network.

As a result, we have increased the number of Payroll Accounts by 3,900 and the average demand deposits by AR$ 287 million.

On the other hand, we have maintained our share in the reciprocal guarantee company market, a key tool for SMEs financing.

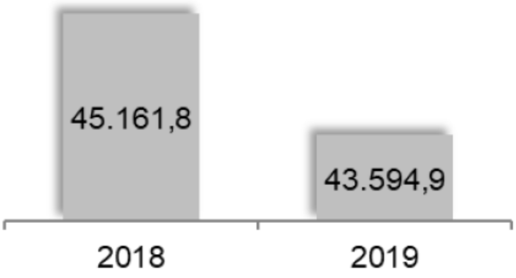
2.3. Our Loan Portfolio: breakdown.

The portfolio of private-sector loans decreased by 3.5%, mainly due to a decline in consumer loans (9.5%) and commercial loans (3.4%).

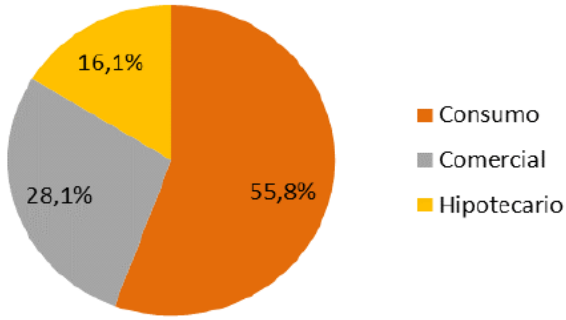
At year-end, the breakdown of the portfolio of private sector loans was as follows: 71.9% in consumer and mortgage loans and 28.1% in commercial loans.

Secured loans, with different types of collateral, stood at 16.1%.

Loans to the Private Sector
(in million ARS)



Loans to the Private Sector
(in %)



Where "Consumo" stands for Consumer loans, "Comercial" stands for Commercial loans, and "Hipotecario" stands for Mortgage Loans.

2.4. Borrowing Products.

As of December 31, 2019, the Bank's fundamental sources of funding are deposits and negotiable obligations. As of December 31, 2018, the Bank's deposits totaled AR$ 35,721.8 million, equivalent to a 21.9% increase vis-a-vis the AR$ 29,307.6 million recorded in 2018. As of December 31, 2018, the balance of negotiable obligations amounted to AR$ 29,035.8 million, or an 8.3% decrease relative to the AR$ 31,660.5 million recorded in 2018.

2.4.1. Sight Deposits.

During the year 2019, account captures were primarily focused on the product bundling acquisition strategy, succeeding in opening 62,148 new accounts denominated in pesos, with 36% active accounts, considering accounts with balances in excess of AR$ 500. Seventy four per cent (74%) of these new accounts were opened at branches, 12% of them were opened through our electronic channels, particularly, Homebanking while the remaining balance was opened through other means.

In terms of transactions, payments of services by direct debit rose 19%, while in-store debit card spending increased 16% vis-a-vis the past year. The average balance increased by AR$ 1,119 million compared to 2018.

In 2019, the Bank originated 49,026 savings accounts in US dollars and continued taking actions to encourage US-dollar trading by electronic channels, offering a competitive exchange rate during the first six months of the year. In 2019, the average balance was US$ 76.5 million.

In an effort to foster customer loyalty, account usage and transactions, the Bank worked on a segmented marketing campaign plan targeted at certain customers. Such campaigns were oriented to increase the use of bank accounts as a means of payment, and foster debit card spending and activation, by offering benefits in several lines, stores and supermarkets. A substantial portion of the strategy was built upon "Homeownership," which is our strategic pillar.

In January 2019, the new Onboarding - Buhobank channel was included as part of our existing origination channels. At this platform, customers may self-apply for onboarding through an entirely digital process and acquire borrowing products in the open market.

By-mid 2019, we launched the second stage of the Product Bundling project to boost cross-sales to our existing customer base, encourage the use of savings and checking accounts, and reinforce the use of such accounts as means of payment. At this stage, the Bank embraced critical functionalities to streamline sales with Optional Checking Account and Credit Card Upgrade in product bundling and the addition of joint account holders.

As of December, the Bank had sold 100,400 bundles accounting for the opening of 28,358 savings accounts in pesos, 45,224 savings accounts in US dollars, and 32,305 new checking accounts. Such accounts resulted in new average balances by AR$ 72.1 million and USD 7.4 million, respectively.

As at December, Retail Banking total average volume for Savings Accounts in AR$, Checking Accounts, and Savings Accounts in US dollars amounted to AR$ 4,253 million, AR$ 27.8 million, and USD 77.1 million, respectively.

2.4.2. Term Deposits.

Our term deposit taking strategy was aimed at reaffirming the criteria of sustainability, quality and optimization of portfolio profitability. In so doing, different approaches were used depending on whether the customers were institutions or individuals. Different interest rates were applied to different segments which allowed the bank to optimize its funding costs. In addition, individual customers were offered a differential rate by term and amount, with the ensuing improvement in the profitability of each tranche.

The Bank managed to increase the balances of fixed-term deposits from individuals in the entire branch network by AR$ 915 million and with over 35,000 customers, underpinned by open market promotions and customer loyalty efforts addressed at portfolios with term deposits and other products offered by the Bank, segmenting customers within the Payroll Direct Deposit segment from the rest of the portfolio, to offer a more suitable portfolio.

In May, we launched an on-line term deposit known as *Plazo Fijo Web*. With this new product, non-customer individuals could remotely set up a term deposit with the bank. Since its inception, the product has contributed over AR$ 400 million in over 750 certificates of deposit.

As concerns managing institutional customers, leadership at the branches in the Argentine provinces continued to be reinforced. Emphasis was placed on customized service and on a segmented offering of products depending on the type of customer.

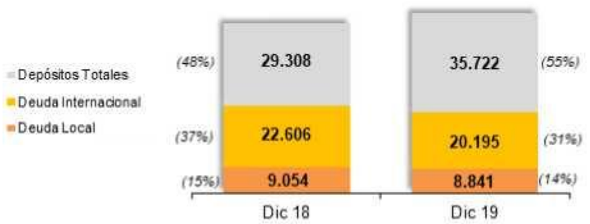
Furthermore, the Bank continued to deploy the strategy for the promotion of and referral to electronic channels to make term deposits, such as Home Banking, TAS, IVR and Mobile Banking, thus fostering the use of accounts generating float. This improved cross-sell indexes and boosted profitability.

As of December, Retail Banking total volume of Term Deposits in AR$, UVA-denominated Term Deposits (stated in AR$), and Term Deposits in USD amounted to AR$ 10,532 million, AR$ 301.5 million, and USD 27.7 million, respectively.

2.4.3. Other Funding Sources.

In 2019, the Bank placed Negotiable Obligations in the local market for an aggregate principal amount of AR$ 3,570.1 million, with an average term of 24 months. The Bank continues pursuing its funding source diversification strategy, based on sight and term deposits and debt borrowed from capital markets (DCM).

Funding Sources (in millions of Pesos)



Where “Depósitos Totales” stands for Total Deposits; “Deuda Internacional” stands for International Indebtedness; and “Deuda Local” stands for Local Indebtedness.

2.5. Structure of Assets and Liabilities.

The Bank maintains a balanced structure of assets and liabilities to help it continue pursuing its growth strategy. In this respect, in recent years the Bank’s strategy has been to subordinate loan origination to the generation of quality liabilities.

Besides, the Bank continued to endeavor to diversify liabilities increasing the share of local negotiable obligations, particularly, in local currency to avoid generating foreign exchange exposures.

Besides, the Bank maintains liquidity reserves for approximately 85.5% of its deposits, with its solvency level (Shareholders' equity/Assets) standing at 12.7%.

2.6. Results of Operations for the Year (b).

Income for the year was AR$ 1,781.5 million, compared to AR$ 2,051.4 million in 2018, down by 13.2% compared to the previous year.

Such results were primarily attributable to: (a) an increase in interest expense, due to a hike in the economy's relevant rates, and (b) a rise in the loan loss provision as a result of a weak macroeconomic environment.

The following table shows the Bank's profit and loss for the year and a breakdown of the Bank's revenues and expenses.

Consolidated Profit & Loss Statement - Presented on a Comparative Basis	For the fiscal year ended		Change	
(Figures in thousands of pesos)	December 31, 2019	December 31, 2018	AR$	%
Interest income	17,074,758	14,897,228	2,177,530	14.6%
Interest expense	(15,424,040)	(12,732,984)	(2,691,056)	21.1%
Net interest income	**1,650,718**	**2,164,244**	**(513,526)**	**(23.7)%**
Fee and commission income	4,726,526	4,212,754	513,772	12.2%
Fee and commission expense	(259,016)	(684,855)	425,839	(62.2)%
Net fee and commission income	**4,467,510**	**3,527,899**	**939,611**	**26.6%**
Net income from measurement of financial instruments at fair value through profit or loss	9,653,678	5,929,976	3,723,702	62.8%
Gold and foreign currency quotation differences	(3,395,414)	(710,852)	(2,684,562)	N/A
Other operating income	6,583,594	4,290,600	2,292,994	53.4%
Loan loss provision	(3,663,945)	(1,828,873)	(1,835,072)	100.3%
Net operating income	**15,296,141**	**13,372,994**	**1,923,147**	**14.4%**
Employee benefits	(5,276,265)	(3,800,363)	(1,475,902)	38.8%
Administrative expenses	(3,398,456)	(3,050,621)	(347,835)	11.4%
Depreciation and impairment of assets	(305,869)	(444,200)	138,331	(31.1)%
Other operating expenses	(4,755,483)	(3,265,434)	(1,490,049)	45.6%
Operating income	**1,560,068**	**2,812,376**	**(1,252,308)**	**(44.5)%**
Income before income tax	**1,560,068**	**2,812,376**	**(1,252,308)**	**(44.5)%**
Income tax	285,632	(754,281)	1,039,913	(137.9)%
Total comprehensive income attributable to non-controlling interests	(64,169)	(6,683)	(57,486)	N/A
Net income for the year attributable to the controlling interest	**1,781,531**	**2,051,412**	**(269,881)**	**(13.2)%**

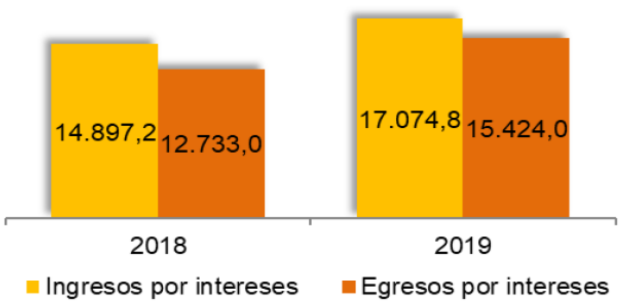
Note (b): The items and amounts as presented in the statement of income included in this document do not necessarily match those in the Entity's financial statements which are presented in line with the Argentine Central Bank's rules.

2.6.1. Interest Income and Expense.

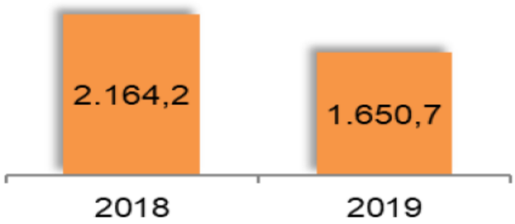
Interest income grew by 14.6% compared to the previous year, mainly due to an increase in interest accrued on loans to the private sector, whilst financial expenses rose by 21.1%, as a result of incremental financial debt costs.

Net interest income for the year was AR$ 1,650.7 million, accounting for a 23.7% decrease vis-a-vis the AR$ 2,164.2 million recorded the previous year. The ratio of net financial margin to average assets stands at approximately 9.1%.

Interest Income and Expense (in million ARS)



Net Interest Income (in million ARS)

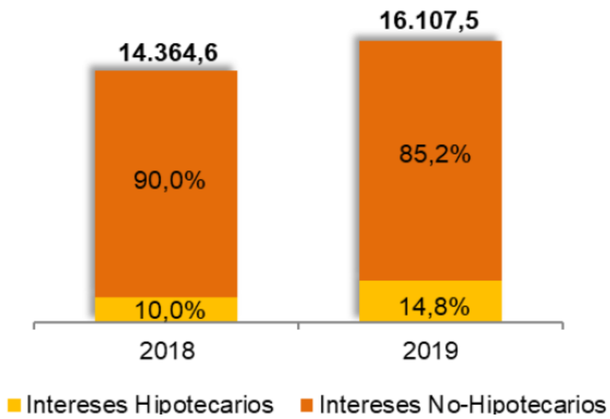


Yellow: Interest Income
Orange: Interest Expense

Net income for the year attributable to the controlling interest amounted to AR$ 1,781.5 million; therefore, the average return on assets for the year was 2.0%, vis-a-vis 3.0% in 2018.

Interest on loans amounted to AR$ 16,107.5 million, accounting for a 12.1% increase of AR$ 14,364.6 million compared to the past year.

Interest on Loans (in million Pesos)

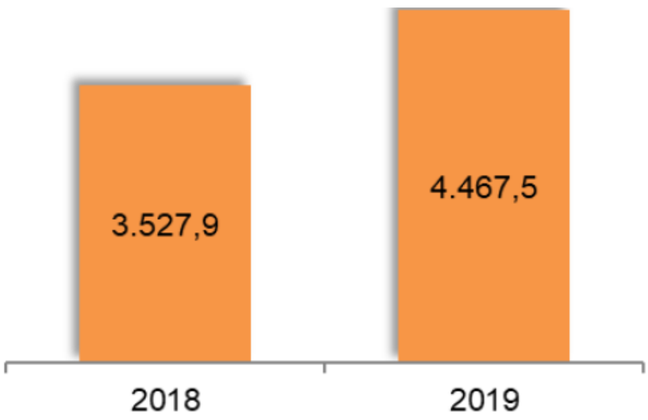


Where "Intereses Hipotecarios" stands for Interest on Mortgage Loans; and "Intereses No-Hipotecarios" stands for Interest on Non-mortgage Loans.

2.6.2. Fee and Commission Income and Expense.

Credit card fees contribute the largest share of fee and commission income. Net fee and commission income amounted to AR$ 4,467.5 million in 2019, compared to AR$ 3,527.9 million in 2018, accounting for a 26.6% increase.

Net Fee and Commission Income
(in million Pesos)



2.7. Indicators of the Bank's Portfolio Quality; Efficiency and Coverage.

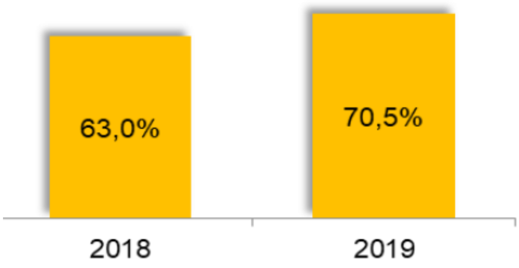
The Non-performing loans/Total credit extension ratio increased from 6.0% in 2018 to 12.3% in 2019, whilst the coverage ratio was 59.9%.

Non-performing Loans
(as a percentage of total loans and provisions for Non-performing loans)

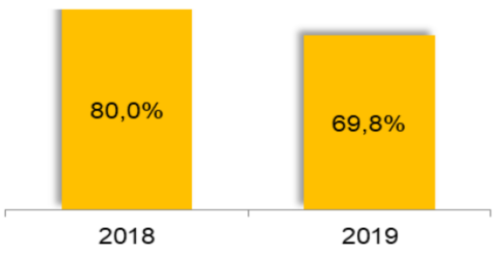
Where "NPL" stands for Non-performing Loans; and "Cobertura (eje der.)" stands for Coverage (Right Axis).

During 2019 employee benefits and administrative expenses rose 38.8% and 11.5%, respectively. The efficiency ratio (defined as administrative expenses plus employee benefits plus depreciation over net interest income plus net fee and commission income plus net income from financial instruments plus gold and foreign currency quotation differences plus some other items included in other operating income and expenses) was 70.5%, whilst the coverage ratio (defined as net fee and commission income plus loan-related services, net over administrative expenses plus employee benefits) was 69.8%.

Efficiency
(in %)



Coverage
(in %)



3. OTHER DETAILS ABOUT THE BANK'S MANAGEMENT ACTIVITIES.

3.1. Retail Banking.

During the year, the main axis for action was to deepen the relationship with customers and to strengthen market positioning with a strategy focused on an ongoing product offering through the network of branches and the Bank's own indirect channels, the intensive use of Business Intelligence tools for sales and customer management, a reduction in approval times and customer-centric systems and procedures.

Product enhancements, plus expanded productivity in distribution channels, were oriented at opening new accounts, increasing fixed-term deposits, and boosting loan origination.

All these achievements, developments and challenges gave the Bank strong leverage, resulting in economies of scale.

3.1.1. Business Intelligence and Data Base Marketing.

In an effort to boost customers' assessments, during the year the Bank split the Business Intelligence area seeking to enhance the use of resources to achieve the retail banking business goals. As a result of the split, two closely related groups were created to address specific needs: Business Intelligence and Data Base Marketing, the latter under the purview of Marketing and Advertising.

Concerning Business Intelligence, the Bank continued working to enhance and validate predictive models used to estimate how likely each Bank's customer is to purchase certain products.

As to Data Base Marketing, the Bank put together customers' or population groups that would be impacted by sales campaign, using the predictive models developed by Business Intelligence and adding business needs as an allocation variable. These groups feed the Bank's e-mail, SMS, social media, and telemarketing campaigns.

During the period, the Bank placed special emphasis on optimizing customer bundling campaigns, making intensive use of purchasing propensity predictive models to compile the data bases that feed the campaigns.

As concerns e-mail and SMS marketing, the focus was placed on cross-selling generic campaigns. To such end, the Bank enhanced the customer contact process, increased the number of incentives they would receive through the several channels, and customized the experience at each contact.

Regarding outbound marketing (telemarketing), the Bank created groups the contact center worked with during the period, following the purchasing propensity model. The branch network also engaged in contact activities by using customer groups whose purchasing propensity would be maximized at the branch in question.

In line with the change in the manner to handle campaigns, the Bank created a "dashboard" which is daily updated, with an exclusive resource for reporting purposes.

In this manner, the Bank sought to keep pertinent controls on campaigns, make visible the results of changes made, and make decisions on the basis of accurate and reliable information.

3.1.2. Segments.

During 2019, the Bank has managed to strengthen the Retail Portfolio customer-centric segmentation strategy.

Some relevant cross-cutting improvements within the entire portfolio include: (a) redefining the segmentation basis; (b) redefining the basis to allocate branches to customers, (c) incorporating segment marks into the systems, (d) posting the segmentation on CRM, (e) redefining the communication strategy by customer, generating a single schedule for the entire banking unit, (f) generating a new Dashboard with metrics by segment, (g) refocusing the organization towards a more customer and segment-centric approach, by means of several training courses, in-branch visits countrywide, and institutional presentations.

As concerns value propositions, in 2019 the Bank decided to engage in the development of new propositions for the following target segments: (i) Payroll Account, (ii) High Income, (iii) Individuals engaged in Business Activities.

3.1.2.1. "Búho Sueldo" - Payroll Account

As concerns the target named "Búho Sueldo":

- The Bank re-launched the value proposition for the Payroll Account segment, with an initial market positioning.
- The Bank launched the sub-brand "Búho Sueldo" to identify customers in this segment.
- A life cycle for the account was deployed and the pertinent agreement allowed to enhance portfolio monitoring (as well as activation and retention).
- The Bank kicked off new innovative campaigns, including conversion of customers to Payroll Account, sales incentive campaigns, and support to PRO.CRE.AR. Urban Developments through the offering.
- The Bank adjusted the Payroll Account metrics and unified customer identification criteria across all reports issued by the Bank.
- Processes were enhanced and new developments were implemented, such as partial payment of wages, confidential payroll at Office Banking, agreement proposals marked in the system, automatic cleanup and link of accounts and Payroll Account offer on digital onboarding.
- Progress was made in the development of payroll massive onboarding through Office Banking. The functionality is expected to be implemented in early 2020.
- The Bank generated 27,776 new accounts and at the end of December 2019 had a stock of 66,529 active accounts, accounting for a 6.8% increase vis-a-vis December 2018.

3.1.2.2. "Búho One" - High Income.

In order to boost loyalty and profitability among high-income customers, in March 2019 the Bank launched a high value proposition according to this segment's requirements.

- The Bank launched the “Búho One” sub-brand as a distinct service to high-income customers acquiring Black or Platinum Pack.
- The Bank designed a distinct image included in all communications addressed to this customer segment.
- Customers within this segment were assigned to a dedicated official.
- Officials were automatically assigned at CRM.
- A new dual service model was deployed, based on each customer's profile: face-to-face or remote.
- Portfolio management alerts were launched through daily alerts, such as birthday, welcome, term deposit expiration date, changes in balances, etc.
- The value proposition was enhanced.

Among the main monitoring variables, 7,259 new Búho One packs were originated, with a 70% increase in debit card transactions.

3.1.2.3. "Búho Emprendedor" - Individuals Engaged in Business Activities.

In order to offer a comprehensive proposal to individuals engaged in business activities (VAT registered taxpayers or small-taxpayers under the simplified tax scheme known as *Monotributistas*), in September 2019 the Bank launched the Businesses and Professionals segment.

Currently, these customers already have more benefits and enhanced options to develop their business activities.

- The Bank launched the sub-brand "Búho Emprendedor" to identify customers in this segment.
- The Bank created the position of "Búho Emprendedor" Official.
- The Bank launched Portfolio Management Alerts by means of daily alerts, such as birthday, welcome, term deposit expiration date, changes in balances, etc.
- The Bank launched ECHEQs via Mobile Banking, being a pioneer in the development of this product to be entirely used from any smartphone.
- The Bank incorporated its most traditional products and transactions to this segment: Comprehensive product bundles, card coupon crediting, payment of wages, comprehensive merchant insurance, TodoPago and ExtraCash, among others.
- The Bank incorporated benefits according to this segment's needs, including the refund of the first payment under the simplified tax scheme (*monotributo*), fully waived legal and tax advice, and exclusive promotions with credit and debit cards on several items and stores associated with the activity, such as management software, stationary, delivery service, alarms and monitoring services, medical insurance, etc.
- The Bank kicked off new innovative campaigns, including conversion of customers to Búho Emprendedor, paying bank product sales incentive campaigns, and support to PRO.CRE.AR. Urban Developments with the offering.

The main monitoring variables include origination of 2,319 new Búho Emprendedor packs, ending the year with 917 customers with Paying Bank in Retail Banking, accounting for a 907% increase vis-a-vis December 2018 (since the Bank did not have expertise in marketing this product).

3.1.3. Customer Service.

In 2019, the contact center handled 1,200,000 calls, 117,000 e-mails and 165,000 social media interactions (Facebook and Twitter).

During the year under review and thanks to the acquisition of Tarjeta Shopping portfolio, the Bank served the company's entire customer base, both through the call center with a total of 229,000 calls and also on Facebook and by e-mail (around 27,000 contacts).

The Bank implemented the new Microsoft Dynamics knowledge base. A channel available on a 24-hour basis giving customers fast access to information. Through the web site, customers visiting the Entity may ask questions on products and services, give feedback, make suggestions and rate articles, thus offering a better experience and enhancing the communication with customers and non-customers through unassisted channels. Getting to know customers' most frequent browsing trends facilitates the creation of relevant and quality contents with a customized language. It is not just about giving answers, but about making them readily accessible and useful for those who need information. In this regard, more than 570,000 articles were viewed.

Within the "Customer at the Core" pillar, the Bank expects to implement the first after-sales stage by the end of 2020, while it is also working actively on the second stage encompassing the definition and development of the CRM.

As concerns the "Customer's Voice"—the customer satisfaction survey after each customer's call—we achieved the following indicators over more than one million surveys:

- 73% of respondents were satisfied or very satisfied with the Bank's overall customer service.
- 92% of respondents were satisfied or very satisfied with the treatment afforded by the advisor.
- 69% of respondents were satisfied or very satisfied with the waiting time.
- 84% of respondents asserted their concerns had been addressed during the call.

3.1.4. CRM.

The Bank completed the migration to the Dynamics 365 – CRM version, including new features and functionalities and enabling the after-sales management module. A new 360 view was developed, including indicators for managing customers by segments. In turn, the Bank expanded product information, allowing users to include details for management purposes, which were not available before or that had to be checked out in other applications.

The Bank also developed an omni-channel sales strategy between CRM and HB. Now, the application process can continue between both channels. This improvement has also benefitted the continuity of applications originated at Búho Bank by Mortgage Loans.

The Bank also completed a new Bundling phase, enabling sales together with a card upgrade, with or without a Checking Account.

Finally, the Bank enabled a service named Paying Bank at CRM, which allows to fill forms on-line directly on the tool, eliminating the need of paper-based documents.

3.1.5. Home Banking and Mobile Banking.

After 14 years with the same institutional site, in 2019 the Bank redesigned its website, www.hipotecario.com.ar. In just six months, the Bank engaged in an agile implementation project with the involvement of several IT areas, encompassing the redesign of all contents in order to make browsing far more accessible and oriented to the customer experience, with an entirely responsive format, enhancing content display from any mobile device. Besides, the Bank implemented new functionalities to simulate rates and request for product information.

The Bank launched the “Banking Home” campaign, with an institutional advertisement and an array of benefits conceived to help customers paint, repair and enjoy their homes. With over 3 million visits on Youtube and highly impactful digital formats on Argentina's leading media, the Bank sought to be conceived as the "Household Bank."

As a result of new customer acquisition campaigns on social media, Email Marketing and Google Adwords, among other platforms, the Bank generated over 12,000 bundle offers, which resulted in 4,250 new products, including digital and telemarketing-assisted conversions combined.

3.1.6. New Visual Identity and Customer Service Model at Branches.

As the world changes, banks change and people demand these changes, in 2018 and more aggressively throughout 2019, the Bank engaged in an analysis to refresh its visual identity and in-branch customer service to enhance efficiency, quality, commitment and identity.

Therefore, together with the Shakespear design studio, the Bank planned for a change in its visual identity and, in early 2019, undertook a new, more modern and closer path. At the same time, the Bank started to work on a new in-branch customer service model, which is consistent with the comprehensive image makeover process. As a result, the Bank modified the manner to serve customers, but also the design of spaces and open work stations, with no divisions between customer and Bank.

To such end, spaces were remodeled to create wide, simple and relaxed branches, always seeking to foster open and smooth circulation, increased self-sufficiency and multi-channeling, which translates into immediate responses.

With the new model and the new image in place, customers can literally read the branch from the very same time they set a foot on it and find a solution. Besides, the Bank has managed to deliver a more agile, autonomous, and technology-based service, without losing sight of personalization, with dynamic desks and more private rooms to handle commercial transactions, and a renewed and innovative line of cashiers prioritizing security on each transaction.

3.1.7. Telemarketing.

The Telemarketing strategy was focused on boosting business profitability by selling "Product Bundles" to customers that only had a credit card, in order to generate borrowing components on customers' cross-selling. In addition, the Bank strived to increase daily productivity by operator and ongoing management follow-up.

As a result of these efforts, the Bank originated 19,523 “Bundles,” including 8,819 new savings accounts and personal loans in the amount of AR$ 141 million. As to Personal Loans, funds in respect of 50% of them were disbursed on line through the IVR channel, so customers did not have to visit a branch to complete the application.

The customer loyalty area took care of 164,000 calls to cancel credit cards and product bundles, achieving a 91% service level.

During the year, work was done to simplify and accelerate product cancellations, streamlining the customer experience in this regard.

3.1.8. Branch Network.

In 2019, as part of our strategy to streamline the Branch Network, the Bank closed the General Pico branch, whose operations were transferred to digital channels and the Santa Rosa branch. Following this change, the Branch Network comprised 74 branches, 62 of which are full branches and 12 are set up at points of contact with customers at Hipermercado Libertad, maintaining the Bank's presence in all capital cities of the Argentine provinces.

In November 2019, as part of the transformation process to the new model, encompassing a more agile and technology-based service within a friendlier and more relaxed environment, in partnership with Havanna, the Bank opened up the first branch with cafeteria—the first “Bancafé” of the financial system.

This branch has all typical banking functionalities, and customers can deal with business officials while enjoying a cup of coffee, amidst a more relaxed environment. Located in the neighborhood of Villa Urquiza, the new "Bancafé" is a two-story building, with ATMs and self-terminals based on the ground floor which operate from 7 am to 9 pm the 7 days of the week. On the first floor, the branch has three cashiers and areas exclusively dedicated to commercial service.

On the other hand, the Bank moved the Barrio Norte branch to Tribunales, and the Mendoza branch to new premises, with a 24-hour open lobby and additional self-service terminals. In both cases, the Bank implemented a new and more agile customer service model, with notebooks for officials, making mobility within the room easier and streamlining service in more relaxed environments. The Bank also re-launched the branch in Salta with a new service model offering customers a distinct experience, improving waiting times and service quality.

Other highlights during the year include: (a) implementation of the first variable compensation arrangement at branches’ commercial platform, and (b) design of a new variable compensation arrangement for the operational platform, effective since January 2, 2020. Therefore, the entire branch network has a new compensation arrangement in place, which will help align individual efforts to the business needs.

The Bank also developed and implemented a new commercial management model to boost in-branch sales and make available a consistent management methodology to all network's employees engaged in the commercial area, leveraging the identified best practices. The Bank also developed a metrics dashboard and a monitoring tool to keep track on action plans within the model, allowing for consistent follow-up.

Finally, during the year the Bank also continued serving the beneficiaries of the PRO.CRE.AR program, delivering the housing units of the urban developments and executing the respective title deeds.

BANCO Hipotecario

3.1.9. The Owners' Corner - Búho Points

In 2019, customers completed a total of 57,717 redemptions (3% more than in 2018). In September, the Bank replaced the "Espacio Dueños" program with "Búho Puntos," o an enhanced customer experience by offering the possibility to redeem points for mobile phone and Sube pass top-ups and gift cards.

Out of the total 57,000 transactions, 81% of them were point redemptions, while 19% were points plus pesos and only pesos redemptions. In addition, top-ups and gift cards—the new categories included in the program following the change—account for 6% of redemptions.

3.1.10. TASi (Smart Self-Service Terminals).

In order to enhance the customer experience, the Bank extended its business hours to make payments and cash deposits every day of the week from 7 am to 9 pm. The Bank also endeavored to make the channel's new browsing interface more agile, intuitive and user-friendly, reducing the number of steps in each transaction. The new browsing interface is expected to be up and running next year. The Bank also simplified the display of the credit card balance payable by customers to eliminate the need for a double check against the account statement. Finally, the Bank implemented the "Búho Fácil" password, with a reduced menu for customers.

3.2. Wholesale Banking.

During 2019, the Bank continued pursuing the teams' consolidation process at the Corporate, SMEs and Public Banking, as well as within the Products area.

3.2.1. Cash Management.

In 2019, Wholesale Banking continued pursuing the goal of increasing sight deposits and commissions. To such end, the Bank carried on several commercial actions leading to capture increased transactional volumes, by means of the Interbanking and Red Link systems.

In addition, the Bank deployed improvements in "Office Banking" aimed at improving the user's experience and facilitating its transactions.

The growth strategy, for the medium term, revolves around the following axes:

- Business development with low financing under a concept of reciprocity with transactional priority
- Development of Public Banking focused on the National Public Administration and its dependent agencies, national universities, provinces and municipalities, and pension funds
- Marketing of transactional products

As a result of these actions, cumulative transactional volumes rose by AR$ 39,000 million compared to the previous year.

3.2.2. Office Banking - Corporate Electronic Banking.

The Bank implemented the E-CHEQ module, with check writing, endorsement and deposit functionalities, in addition to the inquiry module.

Work has been done progressively with the migration to new technologies (New APISs).

The Bank continued with the development of functionalities that reinforced self-service, such as:

- On-line term deposit *Plazo Fijo WEB* (statutory).
- Improved display of account activity and download of account statements: faster account statement downloads and display of account activity in large volumes.
- New report on cashier-window collections, with friendlier, faster and more information on the collection product.
- New receipts in the Investments/Brokerage Account module: transaction receipts and account statements are now included.

3.3. Physical Safety and Logical Security.

3.3.1. Protection of Information Assets.

During fiscal year 2019, the Bank continued building upon a management model based on best practices, maintaining service levels consistent with the changes in the prevailing context and in the organization. The Bank supported the development and implementation of the business strategy, based on its engagement in initiatives and projects, minimizing the security risk associated with the processes involved.

3.3.2. Preventive Security.

During 2019, the Bank's main goal was empowering the use of new technologies for the early detection of losses in order to strike a balance between the use of remote monitoring tools and traditional security methodologies. The Bank conducted risk assessments in line with the business needs that will ultimately lead to improve the cost-reward ratio.

During the year, there were no violent criminal offenses against individuals or BH’s physical assets.

3.3.3. Fraud Prevention and Control.

In this regard, the area took actions without affecting productivity levels and the service level agreements made with its internal customers. Therefore, during 2019, the Bank avoided losses from external fraud by around 0.73% (AR$ 62 million) over total origination of the Bank’s lending products, maintaining values at approximately the same levels as in 2018 (0.81%).

Avoided losses are primarily associated with the prevention of transactional fraud with credit and debit cards and, to a lesser extent, with Identity Theft attempts at remote origination channels (Telemarketing and Búho Bank).

Losses from external fraud amounted to AR$ 1.8 million, equivalent to a 33% decline vis-a-vis the same period the previous year, and accounting for 0.02% of the Bank's lending product origination.

Perpetrated frauds were primarily associated with credit card origination activities, though Telemarketing (25%), Skimming (33%) and Búho Bank (14%).

It should be pointed out that 97% of frauds were identified before the origination of the lending product requested by the prospect.

In addition, the Bank redefined its transactional fraud control processes, by automating alerts and boosting risk profiles, including geo-location tools which helped map transactional "attacks". The Bank also worked closely with the Digital Onboarding provider to enhance the tool and make it more robust.

Besides, the Bank continued with the external fraud prevention training plan, delivering face-to-face training to branches' employees and product onboarding management analysts, keeping the on-line training module updated and issuing alerts related to organized attacks with specific cases.

3.4. Operations.

In 2019, the Bank strived to improve customer service processes in order to cut down the resolution SLA by 50% and take over the increase in customer volume from Tarshop. To such end, the Bank eliminated instances within the resolution area. Resolutions were automated by applying strategic solutions, improving reporting to support management efforts. Besides, the Bank implemented the first stage of the After-sales CRM system, with emphasis on improving the information available by the individuals in charge of delivering after-sales services, and streamlining the entry of customer's needs. In 2020, this database will help make progress in automating decisions.

The Bank also worked on reengineering origination processes at Workflow to accommodate them to paperless workflows, and on implementing a new digital container that next year will help us make progress in digital workflows and shorten transaction processing time. Progress was also made in eliminating paper in several processes, migrating communications to direct publications through several electronic channels (Homebanking, email, ATMs, etc.).

The Bank also engaged in operations as cash custodian on account and behalf of the Central Bank, which resulted in increased revenues and cash management efficiencies.

The takeover of Tarshop's operations accounted for a 30% increase in the customer portfolio, entailing the migration of the entire Personal Loans and Cards portfolio management.

Like in recent years, Operations supported the operation of the PRO.CRE.AR program (Urban Developments, lots with utilities, etc.) from the raffle up to the execution of the title deed.

Finally, the Bank engaged in certain actions to improve its funding, including the deployment of First Data as paying bank, and Cash Management process improvements (collections, direct and automatic debit enrollments).

3.5. Systems and Technology.

Throughout the year 2019, the area continued supporting the sustained growth of the business by executing the Systems and Technology strategy in line with the 2020 business strategy, to leverage growth by developing agile, fast time-to-market, innovative and sustainable solutions with simple business processes. Such support encompassed making the technology and software platform more flexible to support digital products.

Accordingly, in an effort to keep supporting banking outreach, the Bank launched product bundles which can be entirely applied for online, with face recognition technology and verification of identity against RE.NA.PER's database. In addition, seeking to empower the digital world, the Bank launched the new Home Banking application, with a modern interface that offers an enhanced customer experience.

As to Corporate Banking, the Bank keeps empowering Office Banking—our Corporate Banking online application—with new embedded functionalities.

As concerns the technology and software platform, during 2019, the Bank implemented a new architecture based on APIs and Microservices, enabling functionality outsourcing from other entities. All Retail Banking services were migrated to this platform. All Bank's channels rely on APIs and Microservices which can also be used by other organizations. Besides, the Bank implemented a new digital container, adding new document capturing capabilities.

As concerns the core banking software (Cobis), we continue enhancing and upgrading it to preserve business sustainability and development.

In addition, as regards Systems and Technology international organization, during 2019 ongoing delivery processes (DEVOPS) were deployed, with the implementation of automatic life cycle using Jira, Jenkins and SONAR, among other tools, and automated testing cycle.

With all these significant technological advances, the Bank is better equipped to execute an even more aggressive digital strategy.

3.6. Processes.

During the year under review, the Bank focused on the identification and implementation of efficiency initiatives. Therefore, the Bank focused on the origination, after-sales, and financial reporting processes, and on such areas which were most affected by the Tarshop's merger. In 2019, the Bank identified 142 initiatives for the total amount of AR$ 207 million, with an impact of AR$ 37 million.

The Bank also laid the groundwork for the implementation of digital processes: simplified documentation, review of back-office workflows, implementation of a new form manager system to customize generation, and identification of channel referrals. All these actions will help the Bank increase the number of wholly-digital sales of its core products at branches during next year.

On the other hand, progress was made in developing the team's internal capabilities oriented to research and implementation of workflow automation tools. To date, the Bank has made progress in the implementation of 4 workflows allowing it to sort out and automate processes in several areas.

Finally, regarding communication, the Bank consolidated the new site of the Processes area as a knowledge base and means of communication of all laws and regulations governing the Bank's business, achieving a 50% increase in the number of views vis-a-vis the past year.

3.7. Comprehensive Risk Management.

The Bank has a comprehensive process to manage risks, that is, to identify, evaluate, monitor, control and mitigate all significant risks. The comprehensive process to manage risks looks to the Board and to Senior Management for them to get involved and oversee how all significant risks are managed, understand the nature and level of risk assumed by the entity and their relationship with capital adequacy.

It is equally in line with risk management good practices, and in particular, with the provisions concerning the guidelines for managing financial institutions' risks laid down by the Argentine Central Bank. To guarantee adequate management of the Bank's significant risks, the Bank relies on a management framework and management devices tailored to the entity’s size, complexity, economic importance and risk profile.

In the course of fiscal year 2019, the Bank continued pursuing the following actions in connection with the above-described policy:

- Stress testing: the Bank undertook new comprehensive tests which included the treatment of subsidiaries. The outcomes were submitted for consideration to the Risk Management Committee and Board of Directors. The Bank also undertook individual tests on the major risks.
- Risk Control Dashboard: the Bank incorporated a set of new indicators covering regulatory and economic capital aspects and continued to develop an indicator dashboard to monitor the behavior of the main risk factors to which it is exposed given its role as trustee in the PRO.CRE.AR. trust.

- Development of the loan loss provision calculation method based on expected loss models.

The Bank has policies in place that guide its decisions in order to implement its comprehensive risk management strategy. The following is a detail of the Bank's main policies in this regard:

- Regulatory Hierarchy Policy: this policy defines the Bank's internal regulatory policy and the guidelines that must guide the process to create, issue, manage or update and distribute the rules that make it up. In general terms, it lays down the hierarchy of the various rules, the persons responsible for preparing them and the scheme to approve each. In particular, it deals with, amongst other matters, the launch of new products and/or services in order to make sure that the Board will approve them and that they will be later on managed. As regards the launch of a new product or service, it establishes that it is mandatory to prepare a product program, and, if applicable, a credit program and to obtain the requisite approvals.

  Product programs are documents that must disclose, in a structured and formal manner, all the relevant information concerning the product and/or service –especially considering the aspects related to profitability and the risks inherent to the product or service.

  Credit programs are, in turn, documents that must detail the guidelines laid down to manage credit risk at the various stages of product credit cycles.

- Risk Management Policy: this policy sets forth the main guidelines to adequately manage the main risks the Bank is exposed to. It comprises credit, liquidity, market, interest rate, operational, securitization, concentration, reputational and strategic risks.

  It establishes the general organizational and regulatory framework and all ordinary comprehensive risk management devices associated to the risks the Bank may be exposed.

  In addition, it describes the specific management processes for each one of the risks mentioned, and thoroughly describes the methodologies to manage market risks and liquidity risks.

Organizational Structure: The Bank has units in place which are responsible for managing each material risk covered by this policy. Most of these units are comprised by management-level areas, or take the form of a committee.

Below is a detail of the units responsible for managing each of the risks embraced in this policy:

- Retail Banking Credit Risk:
  This unit is engaged in managing retail asset concentration and securitization risks due to the underlying exposures.

- Wholesale Banking Credit Risk:
  This unit is engaged in managing counterpart credit risk and country risk, as well as Wholesale Banking asset concentration risk.

- Market and Operational Risk:
  Operating risk
  Reputational risk
  Market Risk: It embraces interest rate, price, exchange rate, and securitization risks.

- Planning, Budget and Management Control
  Strategic risk
- Finance Committee:
  Liquidity risk, including liability concentration risk management
- Anti-money Laundering Unit:
  Anti-money laundering and terrorist financing risk

The Anti-money Laundering Unit reports to the manager of the Legal department which, in turn, reports to the Board of Directors and to the Committee for Controlling and Preventing Money Laundering. The other units referred to above report to the manager of the Planning and Management Control area, which in turn reports to the General Manager.

The Finance Committee and Credit Committee are comprised by no less than 3 and no more than 7 regular directors.

In addition, the Bank set up a Risk Management Committee, comprised by no less than 3 and no more than 5 regular directors. This Committee's main goal is monitoring senior management's activities related to risk management and giving advice to the Board on the risks the Entity is exposed to.

The structure and responsibilities of the Committees are outlined in the Corporate Governance Code.

Management Devices: The Bank has viable, stable, efficient and effective processes in place to manage each of the significant risks addressed by this policy, which are specific to each subject.

The Bank has the following common devices in place for managing the major risks it is exposed to:

a) Risk strategy: a document prepared every year at the time when the Business Plan is dovetailed and that states the Bank's general approach to risk management. The objective of the risk strategy consists in defining for each one of the Bank's main risks, the level of tolerance and the risk management strategy. The tolerance limit is based on one or several indicators to determine how much risk (credit, interest rate, etc.) the Bank would be willing to accept in pursuing its strategic goals (profitability, growth, value, etc.), within the context defined in the Business Plan.

b) Stress Testing Program: stress tests are a series of analytical simulation exercises that are undertaken to find out the Bank's capacity to deal with extreme adverse economic situations in the field of liquidity, profitability and solvency. To this end, the analysis has to: (a) identify business aspects that appear to be significantly vulnerable in the face of sizable events that are either external and/or internal; (b) measure the impact on the Bank of the occurrence of highly adverse events that are unlikely but possible and (c) infer the capitalization levels required vis-à-vis the scenarios posed.

c) Contingency Plan: The Bank set up a menu of possible actions and measures to deal with the occurrence of, or increase in, the likelihood of stress situations in the economic and/or financial juncture that are, a priori, seen as highly adverse to the Bank's solvency, liquidity and profitability.

d) Economic Capital: The Bank has adopted the methodology that determines economic capital on the basis of the Value at Risk (VaR) quantitative approach. From this standpoint, the economic capital is the sum of the "values at risk" (likely loss in a given horizon and faced with an associated probability) of each one of the individual risk. Economic capital is that required by the Bank to cover both the unexpected losses stemming from exposure to material risks as well as those that arise from other risks to which it may be exposed. In contrast to “unexpected loss” which must be supported by economic capital, “expected loss” is implied in the price of the product (interest rates, commissions, etc.), which must be fixed based on risk and therefore, it is covered by the ordinary operating income. If this is not the case, it must also be supported by capital.

e) Internal Capital Adequacy Assessment Process (ICAAP): The set of processes and procedures implemented by the Bank in order to ensure that it has –both at the individual and at the consolidated levels– enough capital to cover all the material risks and that it also has a strategy to maintain capital with the passage of time. This figure is also subject to stress tests to evaluate capital adequacy.

f) General Information Systems: With these systems in place, the Bank can get to know and monitor the composition and characteristics of exposures in a timely and adequate manner so that the risk profile and the Bank’s capital needs can be quickly and accurately evaluated. In this respect, the Bank has a Risk Balanced Scorecard that is submitted to Senior Management every month, and to the Board every three months.

g) Subsidiary’s Risk Management: The Corporate Governance Code defines the applicable corporate oversight and coordination structure in connection with its subsidiaries. Through this structure, each subsidiary’s Board of Directors is able to: (a) periodically revise the Bank’s risk management policies and strategies and the manner in which tolerance levels are defined, and (b) verify that managers take the necessary steps to identify, assess, monitor, control and mitigate the risks assumed. In turn, this structure makes it easier for each subsidiary’s senior management: (a) to implement the policies and strategies approved by their respective Boards of Directors, (b) develop risk management processes through which to identify, assess, monitor, control and mitigate the risks assumed by the Bank, and (c) implement appropriate internal control systems and monitor their effectiveness, periodically reporting to the Board on the achievement of the defined goals. According to this structure, the goals, risk management strategies and, in general terms, the business plans and budgets of each subsidiary are approved by the Board of Directors, accepted by the Bank’s Board of Directors and communicated by the boards to the several organizational levels of each subsidiary. In order to periodically review the fulfillment of goals, strategies and general business plans, and control managers’ risk management actions, several oversight and coordination mechanisms are defined through this structure. On the one hand, the internal oversight and coordination mechanisms of each subsidiary and, on the other hand, the Bank’s oversight and coordination mechanisms of its subsidiaries. Through the latter, the Bank’s Board of Directors is informed by the Bank’s senior management which, in turn, receives information from the senior management of each subsidiary. In this regard, the Bank uses a Risk Balanced Scorecard to oversee compliance with the limits established in each subsidiary’s risk management strategies. The scorecard is periodically submitted by the Bank’s senior management to the Board of Directors.

3.8. Recovery Efforts.

Fiscal year 2019 has been marked by four major features: (a) an impairment in the retail portfolio arrears ratios (as it happened in the rest of the financial system) exacerbated by certain specific wholesale portfolio impairment events which, due to their relative weight on BH's total balance sheet, lead to a misunderstanding of the portfolio quality, (b) integration of Tarshop's business, as a result of the merger of the company into the Bank, (c) changes in the structure and organizational chart, and (d) the prevailing political transition and economic uncertainty landscape since the primaries in August through year-end.

As part of the actions taken that mitigated the effects on the provision amount to be set up by the Bank, progress was achieved in the following areas.

By mid-year, the Bank decided to implement changes in its management team, structure and organization chart, seeking to incorporate a new perspective on the arrears business and a financial perspective on the recovery efforts, and fully align the Bank's policies and strategies with the generation of results. The proposed changes included: (i) joint recovery efforts with the branch network to commence since November. In addition to the foregoing and in an effort to enhance the quality of response, the Bank designed a Restructuring Hub team (tasked with helping in agreeing upon payment facilities with customers) and a Customized Recovery team (which provides support and traceability to each branch's recovery efforts), (ii) synergies and reduced overheads by merging judicial and extrajudicial recovery proceedings under the same area, in order for each collection agent to have his/her own portfolio and the ability to add value to each decision, (iii) the service provider oversight function—Agencies and Law Firms—, which was outsourced until then, was made part of the team, (iv) knowledge was sought to migrate recovery efforts to the new provisioning requirements set out under International Financial Reporting Standards, and (v) integration of Tarshop's portfolios.

As a result of the change in the management team, the Bank accommodated its action lines, policies and tools, aligning to market values the extrajudicial fees paid upon the successful completion of each stage of late arrears recovery efforts, modified the offers and payment facilities for customers, streamlined the process to arrange new refinancing agreements, eliminating the need for visiting a branch, enhanced the manner to contact customers, completed the development in the Tandem system providing new data useful to the recovery efforts, and made available new collection channels closer to customer.

The incorporation of Tarshop's portfolio to the Bank brought about an impairment in the payment behavior associated with this product, which was primarily offered to low-income customers with a high risk profile. A few months after such incorporation, arrears levels started to shrink, as a consequence of the adoption of more restrictive credit policies and more efficient collection efforts. Such downward trend was more pronounced during the second half of the year and has continued until year-end.

On the other hand, in several provinces, there are still some aspects affecting loan recovery efforts, which are primarily attributable to the enactment of laws to suspend, in their territorial jurisdictions, mortgage foreclosures in progress and/or the forced sales ordered in such proceedings. Like in previous years, this situation prevents the Bank from adequately managing its collection endeavors vis-à-vis a significant portfolio of loans exhibiting incremental outstanding amounts year after year, without a final resolution, compensation or consideration in exchange for the damages caused by these situations.

3.9. Organizational Development.

As concerns organizational development and its quality assurance standards, the Bank's work was based on the commitment to and mission of contributing to the business sustained growth, consolidating human capital development.

The Bank has committed to instilling a culture oriented to the high performance of its employees, encouraging efficiency, productivity and excellence in results. As part of this commitment, the Bank implemented a new model of competencies to address the business current needs and deliver results.

As of December 31, 2019, the Bank's headcount was 1,757 people distributed as follows: 883 women and 874 men, 1080 at the head office and 678 at the branches. The average number of years of service is 11 and the average age is 41 years old.

The Human Capital area (People Management, Culture and Change Management, and Organizational Development Benchmarks) worked on instilling a culture of inclusion to foster personnel development and individual contribution to attain the goals stated in the Bank's management plan for the year.

As concerns People Management, during 2019 the Bank delivered more than 25,840 man-hours of training, including e-learning and classroom learning.

- The Training Plan was designed with a view to address the business demands, developing our employee's skills, and pursuing innovation in the training design and offering, by focusing on different needs and learning styles.
- The Learning Network, a comprehensive training program targeted at the entire branch network and focused on continuing education, professionalization, and growth of our employees in the commercial and operating platform. The program is aligned with the Bank's strategic goals:
  - Certification for Operations Heads: the 2nd level of the certification was deployed, including 24 new materials.
  - Certification for Tellers and Treasurers. The Bank delivered two training updates for the development of the position.
  - The Bank continued delivering Investment training to its network. This year, training took the form of 12 update editions, 3 Schools, On-line Courses, certification program for people knowledgeable in Capital Markets and Insurance Agents.
- Training Management also leveraged and supported the development and deployment of organizational projects: Variable Compensation, PACK, Dynamo Tandem, and Expense Management. We developed the Model of Competencies, encompassing implementation actions, and the promotion of a diagnosis assessment to learn about the degree of development of each skill at the organizational level.
- To keep fostering professional development, for the second consecutive year, the Bank delivered training to 44 "New Leaders," incorporating new topics. The Bank also handled 45 scholarships and over 130 external courses through partnerships with different educational institutions and entities to have updated internal knowledge in place.
- Virtual Training Center: The center added new courses to its offering, embracing specific tools for the development of our employees—gamming, tutorials, and on-line classes—seeking more innovative and effective manners of reaching employees.

Development: During the year, 80 employees were transferred among the Bank's several areas, including 42 internal promotions and 38 lateral shifts, through our sponsorship and internal recruitment process.

For the second consecutive year, the Bank implemented the Skill Assessment Model, after having reviewed it in 2018. The Bank implemented the training program entitled "Empowering Your Talent," encompassing more than 2,400 hours of training in order for employees to be able to embody the organizational skills. A total of 1,678 employees at all levels of the organization participated in the Skill Assessment.

On the other hand, the Bank continued setting individual goals across all management levels. This year and for the first time, the "Bank Goal" did not include earnings only, but also the NPS, based on the understanding that customers are always at the core.

As concerns recruitment, the Bank managed to fill 151 job openings through recruitment and hiring processes, on the basis of the entity's capabilities and meeting the business needs. Seventy nine (79%) of the new hires took over positions with no reports, and 50% of them joined Retail Banking.

The Bank was also present at several fairs, such as "Expo Bumeran," "Semana de Económicas" and Universidad de Palermo, and visited several universities, including San Andrés, Di Tella and UCA, in order to build its employer brand and create an approach between the BH Community and young students.

For second consecutive year, the Bank implemented the Young Professionals Program, with over 7,000 candidates. The Bank hired 6 young professionals to work on several business areas, who went through one onboarding week, 6 months of turnover across several sectors, and over 90 hours of training. In turn, the first group of Young Professionals that joined the Bank in 2018 reached a total of 40 hours of training, including a program for Young People with High Potential at IAE Business School.

We implemented the first Digital Youth Program, with over 2,000 candidates. The program commenced with the hiring of 6 young people to work at several IT areas, who went through a 3-day onboarding, 2 months of turnover across several sectors within the IT area, and over 50 hours of training.

As concerns Culture and Change Management, the Bank sought to strengthen the organizational culture and development, acting as facilitator of the transformation process, and implementing the Change Management model to strategic projects. The overall satisfaction rate was 98%, with an average response rate of 40%. In addition, the Bank implemented the service management model to define Change Management's engagement in the Bank's projects under two modalities— executor and advisor. The Bank incorporated a communication support function for low criticality projects. Each project model is defined according to its criticality level, relying on a “Project Classification Matrix,” which allows to identify impacts on 5 areas (culture, processes, organizational structure, IT, regulatory and people). On the other hand, we worked on 9 projects, as executors and advisors, with an average 60% impact on our headcount, with an average of over 50 actions per project (training, communication, meetings, check point, etc.). Besides, we worked on 7 projects as support.

As concerns Culture and Communication, in 2019, the Bank helped promote the stated focal points to foster business development.

We conducted over 42 communication campaigns, participated in the design and promotion of 7 Human Capital programs, and developed 16 events, celebrations, and special dates to strengthen the commitment and the goals for the year. For example: The "Getting to Know our Business" sessions were held for the 5th consecutive year— an open space that seeks to consolidate and drive organization goals and knowledge about its products, services and operations, led by the organization’s main leaders. More than 350 employees participated in the initiative, attaining a 99% satisfaction level. All Bank’s employees were able to access the sessions through the new "Podcast" format.

The Bank redesigned the Onboarding process, defining the key onboarding moments to generate a memorable experience for the Bank's new hires:

- New “Welcome” communications with useful information to take the first steps at the Bank.
- “Introduction to the Banking Business” on-line training (159 certified employees)
- A full-time face-to-face training for head office employees and employees of branches located in Buenos Aires Metropolitan Area (94 participants and NPS 81)
- Turnover across branches and operations areas (19 turnovers at 8 branches)
- Semi-annual meetings with new hires to share business news in order to strengthen the organizational commitment (2 meetings, NPS 60)

All actions taken are underpinned by several means of communications:

- Internal communication WhatsApp—a new channel with more than 2,582 sent messages and 18 active groups. This new means of communication was enabled to enhance the presence of organizational news and optimize contact opportunities with all our employees.
- Intranet: 235 postings and 4,194 interactions.
- BH News: 52 editions with a 90% satisfaction level.
- Business News: A publication to share achievements and results in the several action lines during 2019. Four editions were completed attaining an 88% satisfaction level.
- LinkedIn: We grew 56% compared to 2018, with more than 74,000 followers, empowering our employer brand with 131 posts that received 16,600 likes.

All these efforts resulted in the ongoing consolidation of communication and promotion of the Bank's culture, with the primary purpose of making each employee's individual contribution meaningful to the Bank's performance, maintaining a 90% satisfaction level for 4th consecutive year.

Within the BH Community, we continued working on promoting and communicating the benefit program on the basis of our four core pillars: #Welfare; #Family; #Development, and #Celebrations. During the year under review, we managed to surpass 36 proprietary benefits and over 950 promotions. The site received 17,695 visits, broken down as follows: 19% of visitors accessed the site from the web page, while the remaining 81% from the mobile platform. The Bank generated more than 1,518 discount coupons, accounting for average savings of AR$ 315 per employee.

As part of the Diversity and Inclusion pillar, the Bank strived to generate opportunities and foster the development of its employees with diverging points of view and perspectives, being flexible to empower participation and business performance. In this regard, the Bank engaged in several actions, including:

- Implementation of the response protocol upon cases of Gender-based Violence.
- Adherence to the "Diversity in Business Club" of the Di Tella University, which develops and fosters diversity and inclusion within business organizations.
- Revision of policies to embrace a more inclusive approach, including:
  - Sick child leave for mothers or fathers
  - 60-day adoption leave for mothers
  - Extended 15-day parental/adoption leave for fathers
- We learned about diversity and worked on bias to empower an innovative environment, with flexibility to face transformational challenges. (4 workshops, 94 participants and 52 NPS)

Finally, during the year, the Bank also strengthened the Leader role. This methodology contributes to efficiently support the development of the Bank's employees and business. It is characterized by an increased level of presence and knowledge about the areas and their teams, being the main contact point on Organizational Development issues. The work done is based on four pillars: People Management, Transformational Processes, Relationship Channel, and Structure Planning. With a strong focus on the latter pillar, during the year, the Bank developed a new strategy incorporating more market indicators and aging analysis, not only to contribute to the efficiency of structures, but also to embrace new generations, empower a culture shift, and challenge management in their teams' ABM seeking to position managers as organizational change agents, responsible for people management, teams, and the area's performance, leveraged by the Human Capital strategy.

3.10. Digital Transformation.

Towards the end of 2019, the Bank initiated a transformational process to implement new working modalities that contribute to improve the business, streamline processes, and focus on the customer experience. The Digital Transformation strategy seeks to build agile teams to develop initiatives that improve the experience end-to-end, always from a customer-centric approach. The Bank also created the Center of Excellence (CoE) in Agility, tasked with defining the agile work methodology for the Bank. Besides, the Bank implemented a development model through journeys, which is focused on customers' needs, from the origination process to the after-sales stage, with the engagement of both the front and the back-office, seeking to deliver an omni-channel experience.

In September 2019, the Bank created the Digital Transformation area, concurrently with the “Center of Excellence”. Then, in December, the Bank initiated a pilot test with the “Buy Your Home” journey, which is intended to offer a distinct mortgage application experience, giving priority to solutions and improvements in the origination process and follow-up on the application status.

4. INFORMATION REQUIRED BY LAW 26,831 – SECTION 60.

4.1. Aspects Related to the Organization of the Decision-Making Process and to the Entity's Internal Control System.

Pursuant to Law No. 24,855, the former Banco Hipotecario Nacional (BHN) was converted into Banco Hipotecario S.A. and subject to privatization under Law No. 23,696. The by-laws of Banco Hipotecario were approved and its first Board of Directors appointed pursuant to Decree 924/97.

The entity's capital stock is made by four classes of shares: Class "A" shares are held by the Argentine government, they grant special rights as well as those corresponding to the *Fideicomiso del Fondo de Infraestructura Regional* (FFIR) subject to privatization through public offering; Class "B" shares are set aside for members holding shares under the Employee Stock Ownership Plan; Class "C" shares are reserved for primary sale in public offering to companies engaged in housing construction or in the real estate business, currently also held by the Argentine government through the *Fideicomiso del Fondo de Infraestructura Regional*; and Class "D" shares, held by the private sector. Any Class "A" shares sold by the FFIR, as well as the shares that will be subsequently sold by the future purchasers of Class "B" and Class "C" shares shall be converted into Class "D" shares.

The term to exercise the warrants for the acquisition of ADRs granted in the IPO expired in 2004. Since then, a balance of approximately 6% of the capital stock remains in the Trust of Warrants and attend Special Shareholders' Meetings for that class *pari passu* with Class "D" shares, in accordance with the instructions delivered by the Argentine government until the sale of this percentage.

As long as Class A shares account for more than 42% of the capital stock, Class "D" shares have a treble vote, as is presently the case.

Banco Hipotecario's management is in charge of a Board of Directors made up by 13 members: two directors designated by Class "A" shares; one director designated by Class "B" shares; one director designated by Class "C" shares and nine directors designated by Class "D" shares. The directors designated by Classes "A" and "C" are presently named by the Argentine government, the directors designated by Class "D" shares are appointed by private sector shareholders at Special Shareholders' Meeting held by the specific Class of shares, while the directors designated by Class "B" are appointed by holders of shares under the Employee Stock Ownership Program. The Entity's Chairman and Vice-chairman are designated from among the directors appointed by Class "D".

The Entity's ordinary businesses are managed by an Executive Committee made up by Class "D" directors. As provided for in section 19 of the Entity's by-laws, and irrespective of other powers granted by shareholders' meetings, the powers and duties of this Executive Committee consist of leading the day-to-day management of the Entity's business and all the issues delegated by the Board of Directors; developing the Entity's business, lending and financial policies, subject to the objectives approved by the Board of Directors; creating, maintaining, suppressing, restructuring or transferring areas and sectors in the Entity's administrative and functional structure, creating Special Committees; approving certain functional structures or levels, which includes determining the scope of such functions; approving the composition of the Entity's headcount; designating the General Manager, the Deputy General Managers, Executive Vice-Chairmen and other Division and Area Managers, which includes the establishment of their level of compensation, terms and conditions of the position and any other personnel-related measure, which includes promotions; proposing to the Board of Directors the creation, opening and relocation or closure of branches, agencies or representative offices within or outside the country; supervising the performance of subsidiaries and investees; proposing to the Board of Directors the formation, acquisition, total or partial sale of equity interests; submitting to the Board of Directors the Entity's proposed procurement guidelines, annual budget, estimates of expenditures and investments, necessary indebtedness levels and the action plans to be implemented, as well as approving reductions, waiting periods, refinancing arrangements, novations, debt condonations and/or waivers of rights, when the ordinary conduct of business so requires or when advisable. The sessions held by the Executive Committee are attended also by the members of the Supervisory Committee.

There are also special committees comprised by Directors and committees comprised by line managers to deal with the decision-making process in specific areas with the involvement of areas responsible for similar issues, including:

(i) the Audit Committee; (ii) the Committee for Controlling and Preventing Money Laundering and Terrorism Financing, (iii) the Information Technology Committee, (iv) the Credit Committee; (v) the Personnel Incentives Committee; (vi) the Risk Management Committee; (vii) the Corporate Governance Committee; (viii) the Board of Directors' Ethics Committee; (ix) the Finance Committee; (x) the Committee of Social and Institutional Affairs; (xi) the Employees' Ethics Committee, (xii) the Assets and Liabilities Committee –ALCO-, (xiii) the Retail Banking Pricing and Rates Committee, (xiv) the Committee for the Protection of Financial Service Users, (xv) the Investment Committee, (xvi) the SMEs Lending Committee, (xvii) the Real Estate Committee, and (xviii) the Crisis Committee.

Control over compliance with the Banco Hipotecario's by-laws is the responsibility of a Supervisory Committee made up by 5 members: one for Class "A" shares; one for Class "B" shares and three for Class "C" and "D" shares designated at the special shareholders' meeting held by each special class.

4.2. Dividend Policy Proposed or Recommend by the Board of Directors.

The Bank's Board of Directors upholds the policy to pay dividends to shareholders when the volume of earnings so permits and when the conditions and requirements imposed to that effect by the Argentine Central Bank's regulations are satisfied.

In this regard, the Argentine Central Bank has provided that the payment of dividends – other than ordinary stock dividends - the purchase of treasury shares, payments over Tier 1 Capital instruments and/or payments of financial incentives under labor laws and regulations governing the relationship with financial institutions' personnel, are contingent upon the restrictions established in its rules and regulations.

The Central Bank imposed certain conditions for financial institutions to be permitted to distribute dividends, namely: (1) they must rely on an express authorization from the Superintendent of Financial and Foreign Exchange Institutions concerning the amount intended for distribution, (2) distributable earnings should be determined by following the off-balance sheet adjustment procedure set out by the Central Bank, and (3) the amount intended for distribution must not compromise the Bank's liquidity and solvency; to this effect, the Central Bank will not admit earnings distribution when the Bank: (3.a) is subject to the provisions of Section 34 "Normalization and Turnaround" and Section 35 bis "Restructuring an entity to safeguard credit and bank deposits" of the Financial Institutions Law; (3.b) there are records of financial aid lent by the Argentine Central Bank on grounds of illiquidity in the framework of Section 17 of the Argentine Central Bank's Charter; (3.c) incurs in delays or fails to comply with the reporting requirements set forth by this Institution; and (3.d) fails to pay the minimum capital or cash requirements, on an individual or a consolidated basis.

On the other hand, the rules establish a capital conservation buffer additional to the minimum capital requirement in order for entities' to accumulate equity to face potential losses, thus mitigating the risk of default on this requirement. This conservation buffer shall be equal to 2.5% of the entity's Risk-Weighted Assets ("RWA"), in addition to the minimum capital requirement. Such conservation buffer rises to 3.5% of RWA for financial institutions qualified as "of systemic importance."

Therefore, when the Board of Directors corroborates that the Bank is not within any of the above situations, the Board may determine the amount to be proposed for distribution as cash dividends and the date for effecting such payment to the shareholders' meeting. In so doing, the Board shall be mindful that such distribution should not result in a decrease in the Bank's economic capital such that it may hinder its growth requirements, whether or not through new businesses or the adequacy of such capital to face the risks that could reasonably ensue from unfavorable scenarios in the systemic environment, such as the country's macroeconomic conditions.

In line with the above, the Board's proposal must provide for applying with the Office of the Superintendent of Financial and Foreign Exchange Institutions for authorization to pay dividends, and, at the time when the shareholders' meeting approves the payment of dividends, such payment should not adversely affect the entity's liquidity and solvency as per the rules of the Argentine Central Bank. Accordingly, when there are retained earnings at the end of the fiscal year and the requirements imposed by the Argentine Central Bank are satisfied, the Board will be able to approve and submit to consideration by the shareholders' meeting a project for the distribution of profits in the form of cash dividends together with the Entity's financial statements.

4.3. Compensation Modalities: Directors' fees and compensation policy applicable to the Bank's Management.

The Entity's by-laws provide for the compensation to be paid to the Board of Directors and delegate to the Executive Committee the decisions regarding the compensation of the Entity's management. Furthermore, in compliance with the provisions under the Central Bank's Communiqués "A" 5201 and 5203, the Bank created a Personnel Incentives Committee to take care of this issue.

The Personnel Incentives Committee has been entrusted with a primary mission consisting in overseeing the incentives system. To that end, the Committee shall be responsible for laying down policies and practices to provide economic incentives to personnel involved in risk management, be it credit, liquidity, market, interest rate and/or operational risk, adjusting decisions to the exposure to these risks assumed by the Company according to the liquidity and capital requirements at stake both on potential and current risks and on future risks and/or risks to the entity's reputation and whereby the economic incentives to the members of the organization should be tied to the contribution by each individual and by each business unit to the Company's performance, as established by the Argentine Central Bank's Communiqué "A" 5599 or any other regulation that may replace or supplement it in the future.

As regards the Board of Directors' fees, section 14 of the by-laws sets forth as follows: (a) Non-executive members: the duties of the non-executive members of the Board of Directors shall be paid on the basis of a global amount annually established by the Ordinary Shareholders' Meeting which amount shall be equally distributed amongst these members and among their alternate members pro rata of the time during which they were effectively substituting for regular members. The Ordinary Shareholders Meeting shall authorize any amounts that may be paid on account of such fees during the current fiscal year, subject to the approval of the shareholders' meeting called to approve said fiscal year; (b) Executive members: the Chairman and remaining Entity Directors who perform managerial, technical and administrative duties or who are members of special committees shall be paid for such functions or involvement in committees in line with the fees currently paid in the market for similar tasks in an amount to be fixed by the Board of Directors with the abstention of the parties mentioned and shall be subject to the approval of the Shareholders' Meeting; (c) Executive Committee members: the Directors who make up the Executive Committee and carry out the tasks provided for in section 19 of the by-laws shall be paid a bonus component equivalent to the amount resulting from deducting the fees of non-executive directors and the compensation payable to the Chairman and Directors in charge of specific functions as approved by the Ordinary Shareholders' Meeting for that same fiscal year from the maximum amount provided for in (d) below. The amount of this bonus component shall be distributed amongst the members of the Executive Committee following instructions imparted by the Executive Committee itself; (d) Maximum amount: the total amount of the compensation payable to the Directors, as paid or approved by application of the provisions in preceding paragraphs (a), (b) and (c) shall be limited to 5% of earnings net of tax for any given fiscal year in which no cash dividends are being distributed for any reason whatsoever, which amount shall be increased pro rata of the existence of dividends in cash up to a maximum percentage of 15% of computable income, as established in the Entity's by-laws; (e) insufficient earnings: in the event no income were generated in a given fiscal year or in the event income had been reduced to afford payment of the compensation provided for in preceding paragraphs (a), (b) and (c) which calls for an extension of the limits fixed in the preceding paragraph (d) and/or those established in section 261 of Law No. 19,550, may only be paid if expressly approved by the Ordinary Shareholders' Meeting.

On the other hand, in December 2017, the Bank announced the implementation of a benefit plan consisting of payments based on the Bank's shares of stock aimed at all active employees included in the payroll as of November 30, 2017. The plan seeks to align the organization's goals with the beneficiaries' goals, turning them into key players and makers of the organization's results. In order to be eligible for the transfer of title to the shares, beneficiaries shall meet certain conditions, including: (i) resignation, early retirement, retirement, voluntary retirement, dismissal without cause, or death, (ii) in the case of resignation, beneficiaries shall have no less than 5 years of service as of such date, and (iii) in all cases, beneficiaries shall have received an average rating equal to or higher than 90 in the last 5 performance reviews before their termination, or its equivalent, should there be a change in the organization's rating scheme.

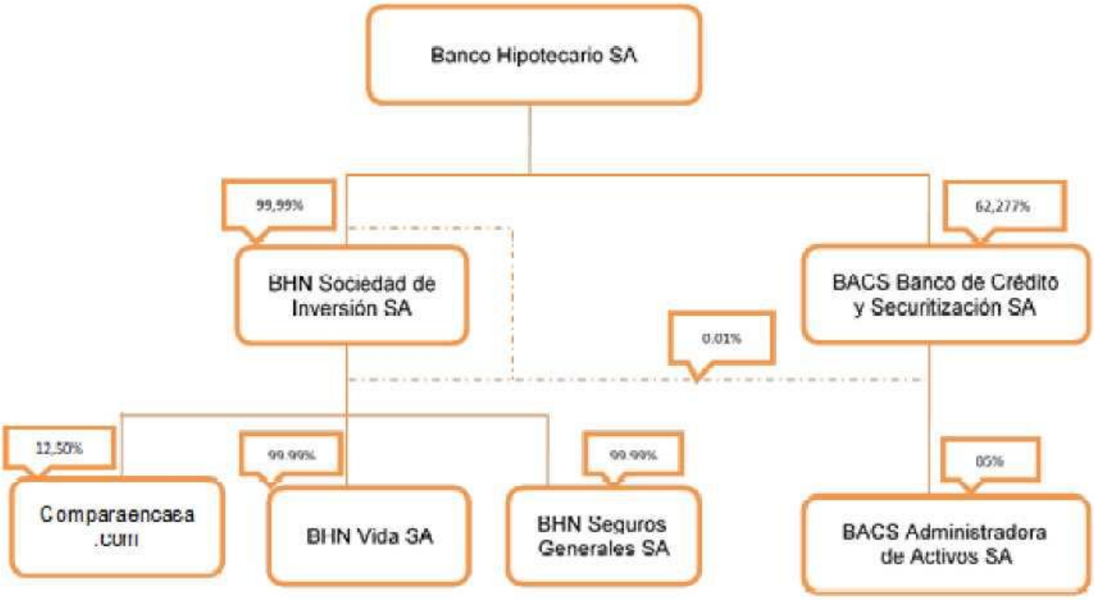
5. SUBSIDIARIES.

5.1. The Company and its Subsidiaries: Structure.

The Bank has direct and/or indirect control over companies that make up the group of subsidiaries and they are, thus, subject to consolidation. The subsidiaries are: (i) BHN Sociedad de Inversión SA, a company engaged in investments and in managing ownership interests in the capital stock of other companies; BHN Vida SA, a life insurance company; BHN Seguros Generales SA, an insurance company that carries insurance against fire and damage to real property, and Comparaencasa.com; and (ii) BACS Banco de Crédito y Securitización SA (BACS), a commercial bank which in turn owns a shareholding in BACS Administradora de Activos SA (BACSAA).

In 2019, the subsidiaries Tarshop SA and BH Valores SA were merged into Banco Hipotecario.

Therefore, the structure of the Bank and its subsidiaries is as illustrated below:



Banco Hipotecario, the parent company, is at the center of the main financial intermediation activities and it defers to other economic units the banking supplementary businesses and services, as well as insurance and mutual fund management companies, although the Bank always maintains and encourages potential synergies amongst their different customers.

5.2. Subsidiaries.

5.2.1. BHN Sociedad de Inversión SA. BHN Seguros Generales SA, BHN Vida SA and Comparaencasa.com

The Bank is the holder of a 99% interest in the capital stock of the insurance companies "BHN Vida SA" and "BHN Seguros Generales SA". These companies are under the supervision of the Argentine Office of the Superintendent of Insurance.

BHN Sociedad de Inversión conducts substantial commercial and financial activities with related companies, particularly, Banco Hipotecario, as it offers, through its subsidiaries, coverage for its financial product portfolio, while also selling insurance policies among its customer base under agency agreements.

The insurance companies' business is based on offering solutions for large customers engaged in the financial sector, while also offering insurance solutions covering family protection needs of policyholders' customers. These companies carry out their business under an insurance banking model, focused on offering standardized products with limited dispersion in terms of insured capital and mass distribution.

BHN Seguros Generales' current product offering is targeted at protecting the assets of policyholders and their customers, who are offered simple and genuine alternatives to protect their property.

BHN Vida's products are variants of term life, personal accident and health insurance with different options of insured capital, adequate to protect outstanding balances and also household consumption upon the policyholder's death.

Currently, the product offering includes:

- Credit Life Insurance: It covers the lender of the financial product against outstanding debt upon the borrower's death.
- Fire Insurance: It covers buildings pledged as collateral of financial products against fire and other physical damages.
- Personal Accident Insurance: It provides coverage against the policyholder's death or total or partial disability as a result of an accident. It also covers daily hospitalization expenses and reimbursement of medical and pharmaceutical expenses.
- Home Insurance: It provides coverage against fire affecting the building or its general contents, theft, third party's liability, cleaning and accommodation expenses, hail, home appliance insurance, and glass breakage insurance.
- Life Insurance: It provides coverage against death, with double benefits on accidental death and early payment of insured capital if policyholder is diagnosed with a critical illness.
- ATM Theft Insurance: It provides coverage against theft of money withdrawn from an ATM or bank teller, and also against theft of personal documents.
- Personal Property Insurance: it provides coverage against personal property loss, destruction or damages as a result of actual or threatened theft, while in transit. The insured property includes bags and their contents, electronic and telephone devices, and computers.
- Purchase Protection: It provides coverage against the repair, replacement or reimbursement of products purchased with credit card for up to a certain number of days following the purchase date. It covers the products purchased against theft and accidental damages.
- Unemployment Insurance: It provides coverage against employees' layoffs, and against work-related disability and accidental death for self-employed.
- Heath Insurance: It covers surgeries and transplants.

As its concerns the regulatory framework, the Argentine Office of the Superintendent of Insurance has approved coverage in the several lines of business these subsidiaries are engaged in.

During 2015 and 2016, the Argentine Central Bank introduced certain regulatory changes restricting the Credit Life Insurance market. According to such restrictions, financial institutions may not charge commissions and/or fees of any kind for credit life insurance products, and shall hire credit life insurance (or shall be otherwise self-insured) providing coverage against death or total permanent disability in respect of loans granted to third parties. These changes had a negative impact on premiums accrued from this product, with the ensuing decline in its share in the total portfolio, which was offset with increased revenues from the other products.

In recent years, the companies have expanded their product portfolios, including additional services to their existing products in order to provide comprehensive insurance to customers and offset the underwriting results of the Credit Life Insurance portfolio.

The companies' strategy is based on continuing growing their business, both in terms of number of customers and products. In this sense, the companies are assessing the launch of new products to complete a comprehensive offering, including new lines of business and policies, and adjusting the insured amounts of the existing ones to the customers' needs.

In addition, work is being done to incorporate new trade partners who are part of the business group, and to diversify distribution channels. The company is also working actively on the development of new channels, particularly, digital channels, to keep up with emerging trends.

In addition to its equity interests in the insurance companies, BHN Sociedad de Inversión also owns a 12.5% interest in Comparaencasa Ltd. Such interest also includes the issuance of warrants by Comparaencasa Ltd. which entitle (but do not compel) BHN Sociedad de Inversión to subscribe shares in future investment rounds, at a 35% discount on the subscription price. Comparaencasa Ltd is a company based in England and the parent company of the Argentine subsidiary Comparaencasa SA and the Brazilian subsidiary Comparaen Casa Servicos de Informacao Ltda de Brasil, both of them doing business as "comparaencasa.com". The Argentine subsidiary Comparaencasa SA is authorized to act as insurance broker by the Argentine Office of the Superintendent of Insurance and currently does business online, at www.comparaencasa.com. Comparaencasa's strategic goal is positioning as the leading online insurance broker in Argentina and then expanding the business at a regional level. The Bank's interest in Comparaencasa is strategic and allows it to tap into the insurance business online.

According to the valuation criteria laid down by the Argentine Superintendence of Corporations (IGJ) and the Argentine Office of the Superintendent of Insurance (SSN), these companies' financial highlights are disclosed in Exhibit E to Banco Hipotecario's financial statements.

As concerns the inflation adjustment on financial statements, the IGJ handed down General Resolution No. 10/2018 (published in the Official Gazette on December 28, 2018), establishing that financial statements for periods ending on or after December 31, 2018 should be stated in constant currency, in accordance with the standards issued by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE), as adopted by the Professional Council in Economic Sciences of the City of Buenos Aires (CPCECABA). Besides, as concerns insurance companies' financial statements, the SSN established that the inflation adjustment shall be mandatorily applied to their financial statements as of June 30, 2020, while for interim periods the Company will be required to disclose the summary quantitative and qualitative effects of the adjustment on a note to the financial statements. However, for purposes of the consolidation with the controlling company's financial statements, certain adjustments were made for the sake of consistency, without considering the restatement into constant currency.

5.2.2. BACS Banco de Crédito y Securitización SA and BACS Administradora de Activos SA.

BACS Banco de Crédito y Securitización SA's strategy seeks to grow assets increasing the Bank's financial and operational leverage, reinforcing its positioning as one of the leaders in the local capital market and tapping into new business opportunities to consolidate BACS business model, expanding the credit base and generating synergies with current activities such as origination, distribution and trading. Besides, BACS has recently engaged in dealing with SMEs instruments to provide financial solutions to new customers and its corporate customers' value chain. On the other hand, BACS is engaged in the mutual fund management business through Toronto Trust, with AR$ 9,565 million as of December 31, 2019.

Also in 2019, BACS took part in investment banking transactions for approximately AR$ 41,823 million, including negotiable obligations, financial trusts, provincial bills and bonds, and syndicated loans, in a total of 22 transactions, being the lead agent in 4 of them. BACS is ranked among the top 10 corporate date underwriters.

As to the secondary market for publicly traded corporate debt, in 2019 BACS ranked seventh in Mercado Abierto Electrónico's accumulated ranking.

During 2019, BACS acquired portfolios of receivables for AR$ 40 million, originated pledges and personal loans for AR$ 21 million, granted advances to financial trusts for AR$ 107 million, took part in corporate loans for AR$ 80 million, resumed the role of trustee in financial trusts, and since June 3, 2019 has engaged in the business of taking deposits in interest-bearing checking accounts from institutional customers, with total deposits as of December 31, 2019 amounting to AR$ 3,334 million.

BACS issued a total of 18 series of negotiable obligations for a total of AR$ 597 million outstanding as of December 31, 2019, and continued to enhance its financials which resulted in assets by the end of fiscal year 2019 that stood at AR$ 5,963 million, which points to a 64% rise vis-a-vis the previous year.

In addition, the trust portfolios under BACS' management amounted to AR$ 543 million attributable to its services as general manager and trustee.

On the other hand, BACS has control over BACS Administradora de Activos SASGFCI, which is the management agent for the Toronto Trust mutual funds. BACS owns an 85% interest in BACSAA acquired in May 2012, when the firm changed its name from its previous "FCMI Financial Corporation SASGFCI" designation to current "BACSAA". This company manages a family of mutual funds that cover a broad range of investment profiles and horizons both from institutional and individual investors. The funds are primarily offered through Banco Hipotecario as Mutual Fund Placement and Distribution Agent and through BACS as Depository Institution.

According to the valuation criteria established in the generally accepted accounting principles of the professional accounting standards, these companies' financial highlights are disclosed in Exhibit E to Banco Hipotecario's financial statements.

6. PRO.CRE.AR. BICENTENNIAL.

Since its inception, the purpose of the PRO.CRE.AR program has been increasingly guaranteeing the right to have access to a home and with such right, to make the dream of many Argentines of owning their own houses come true and to foster a virtuous circle in the economy. In 2019, the Bank celebrated its seventh anniversary as trustee of the PRO.CRE.AR program, an initiative driven by the Argentine government to address the housing needs of the citizens countrywide.

As of December 31, 2019, the program had provided over 210,000 housing solutions through individual loans for home construction, enhancement, completion, repair and acquisition.

The main focal points of this program include:

- Individual home financing arrangements and urban home development on properties owned by the National, Provincial or Municipal Governments, providing families the possibility to have access to their first home through the acquisition of brand-new housing units at any of the 70 urban developments distributed nationwide.
- A home improvement credit program known as *Línea Mejor Hogar* led by the Secretariat of Housing through which families may access to credit facilities destined for utility connection or home improvements or enhancements, in order to have increasingly safe and quality homes. Banco Hipotecario is the exclusive originator of these facilities.
- A credit facility program known as *Línea Ahorro Joven* aimed at young people from 18 to 35 years old earning both registered and unregistered income in order for them to be able to buy their first home through a mortgage loan. Selected applicants could show up at the Bank to initiate the savings process for at least 12 months to qualify for this credit facility. This credit facility is expected to be rolled out again in fiscal year 2020.

The Bank has managed to maintain a prominent role in the housing and construction market, which it aims to consolidate in the years ahead, by providing assistance to the Argentine government, leveraged on the structure and know-how of the team that led the PRO.CRE.AR. program under its several variants.

The Bank is also analyzing new operation modalities for future Urban Developments, as well as new housing development businesses with prospects, in line with the Bank's vision of positioning itself as a provider of construction project management services.

In this respect, the Bank is assessing some services required by the Argentine government, leveraging on its team's experience and national coverage, services aimed at curbing the housing deficit, and development of service infrastructure in certain sectors of the population (gas network, sewers, electricity, etc.).

6.1. Individual Home Financing Arrangements.

The individual lines of credit are aimed at the construction, enhancement, completion and refurbishment of homes. Besides, based on the needs of each beneficiary, the program launched new lines of credit targeted at families who wished to construct but could not afford the land and an additional line of credit targeted at beneficiaries who were in the construction process whose loan, as originally granted, was for several reasons, insufficient to complete the works.

The following table shows the number, amount and purpose of the loans granted in 2019:

Line	Number of loans	Amount lent	Proceeds from BHSA's own capital	Proceeds from PRO.CRE.AR.
Home construction	27	AR$ 44.9 million	AR$ 44.9 million	
Home acquisition	23	AR$ 33.9 million	AR$ 33.9 million	
PRO.CRE.AR program - Acquisition *Ahorro Joven*	92	AR$ 83.7 million	AR$ 83.7 million	
Microcredit under the *Mejor Hogar* program	25,371	AR$ 853.2 million		AR$ 853.2 million

6.2. Urban Developments.

In 2019, the Urban Developments line consolidated as the leading line of credit to buy brand-new homes. Middle-income families from several parts of the country had a chance to participate in the program based on the offer currently available in their respective districts—that is, turnkey housing units or lots with utilities to build their homes in the future.

The development of urban projects driven by the Program is linked to the policy the Argentine government has been pursuing to strengthen and consolidate social integration processes and to encourage economic growth through home building. This strategy to approach the housing issue brings along the added value of controlling and using urban land for social purposes, helping to limit speculation in real estate transactions.

In this regard, the urban projects streamline the use of land and foster the development of ancillary activities to residential home building, such as commercial and/or productive activities. These projects also expand utility services in the districts, recreational spaces and road infrastructure. The needs of new and old residents of the area are hence satisfied, generating room for social integration.

From the architectural standpoint, the urban development projects seek to combine different types of housing in order to generate certain diversity in terms of social composition, scale and aesthetics, while also generating varying appropriations by the community. These types may also be extended according to the needs of each family. Each type of home has a quality design in both its functional (comfort and sufficient room space) as well as in its aesthetic aspects, and is built abiding by high quality standards for materials and finishing. In addition, these homes are built considering the needs of people with disabilities, who will account for a significant number of the future beneficiaries of these developments.

At this stage of the program, Banco Hipotecario has expanded the scope of its actions, from the auction of lots and construction works and mortgage origination, to the award of the housing units, follow-up on the development start-up and after-sales efforts. At each of these stages, the Bank had to handle the several community conflicts that arose in the several districts and managed to reach peaceful agreements with beneficiaries groups, which fostered shared rules not only inside the neighborhoods but also with surrounding neighborhoods.

Therefore, the Urban Developments structure supports families at every stage, from enrollment, during the credit application and granting process, and for a couple of months after their new homes are up and running.

With presence across all Argentine provinces, below is a detail of Urban Developments' highlights as of December 31, 2019:

- 70 lots of land have been awarded and are underway (project completion is at 97.74%, while finance completion is at 95.45%).

- Housing units under construction: 23,304. Total area of projects under construction: 2,197,650 m2, which turns Urban Developments into the main constructor of housing units nationwide, surpassing annual ratios of works permits in the major cities of Argentina, including the City of Buenos Aires, Cordoba, Rosario and Mendoza.

- Investment in Works: As of December 2019, investment in civil works amounted to AR$ 41,883 million (not including lots with utilities), while accumulated investment in infrastructure amounted to approximately AR$ 2,500 million (AR$ 2,000 million as of December 2018). In addition, the program invested in infrastructure links outside the lots (over AR$ 1,000 million invested), resulting in a great development for communities and improving their residents' quality of life. These investments are tied to productivity, competitiveness, economic growth, public investment, and seek to reduce poverty and offer equal opportunities. Infrastructure development strategies have always been characterized for their boosting effects on public and private investment, as well as on social mobility.

- Raffles and Deliveries: As of December 2019, 60 lots were raffled (new lots and lots remaining from previous raffles), accounting for a total of 12,832 homes. Delivery to the winning beneficiaries commenced during the second half of the year. As of December 31, 2019, 11,274 housing units had been delivered under the program.

- Lots with Utilities: At present, there are approximately 8,461 lots under construction. As of December 31, 2019, 5,292 lots were raffled, with 1,352 of them having been delivered to beneficiaries. The delivery of pending lots was stagnated for certain time, and has been fully resumed during fiscal year 2019, with 3,857 lots having been tendered, which were offered for sale during the first half of 2019. The first 250 units had already been delivered.

6.3. Public-Private Partnerships.

By means of a home construction facility under the "PRO.CRE.AR. Desarrolladores Inmobiliarios" program, which is sponsored by a public-private partnership, developers build real estate projects on land owned by the Program.

The facility provides the land owned by the trust fund, while developers execute the project and construction works, and receive, at their option, financial assistance from the program or other financial institutions. The land is financed by the program and the developer pays for it out of finished units or with a portion of the proceeds from the sale to third parties qualifying for the individual lines existing under the PRO.CRE.AR. program.

Four tenders were conducted under this program, two of which are underway (Rosario and Santa Fe Lot 9), and the third one is in the process of being awarded (San Carlos de Bariloche).

In December 2019, six months after the commencement of the construction works, Santa Fe Lot 9 had been completed by 14%. The total investment amount is UVA 36,618,724.23. As of December 2019, total accumulated disbursements under the Mortgage-backed Financing borrowed by the developer amounted to around UVA 841,000. The estimated amount to be disbursed in 2020 is UVA 3.34 million (as of December 31, 2019 the UVA reference value is around AR$ 47.16).

The Rosario development is under construction, currently undergoing preliminary land preparation activities. The total investment amount is UVA 34,602,119.54. The first disbursement under the Financing facility borrowed by the developer will occur after the project has reached 20% completion.

In addition, calls for tender were conducted to award lots with utilities. The tender processes underway include: (a) Esperanza, Santa Fe; (b) Bahía Blanca, Buenos Aires; (c) Tandil, Buenos Aires and (d) San Carlos La Plata, Buenos Aires.

Through this program, the public-private partnership model beings to consolidate as a project execution vehicle.

7. FINANCIAL AND COMMERCIAL STRATEGY FOR 2020.

Last year, Banco Hipotecario engaged in a transformational process aimed at gradually balancing the Bank's business, whilst reaching efficiency, profitability and liquidity ratios similar to the industry's benchmarks, preserving its shareholders' equity in real terms over the time.

In this framework and giving priority to the Bank's solvency and liquidity, the following focal points will be consolidated during 2020:

- Subordinating asset growth to the growth of the Bank's core liabilities, whilst balancing consumer and commercial portfolios both in terms of their several components and in relative terms amongst them.
- Increasing core liabilities, namely, individuals' sight accounts and fixed term deposits, through commercial campaigns, focused on digital origination and cross-sell actions.
- Boosting Wholesale Banking, particularly, cash management services, paying bank services, payroll account agreements, interest-bearing accounts and tax payments (AFIP).
- Developing Digital Banking, with special emphasis on borrowing products and an enhanced customer's experience.
- Maintaining the Bank's leading position in the primary and secondary mortgage market, leveraged on new credit facilities, securitization of previously granted UVA-linked mortgage loans, and digital origination of mortgage loans.
- Maximizing profitability per customer through incremental cross-selling efforts, underpinned by the deployment of retail and wholesale product bundles.
- Executing the budget on the basis of a new expenditure management model, involving and engaging each area and sector in the project.
- Arranging policies and processes embracing a more efficient working methodology leading to mitigate operating risks and allowing for adequate project planning in line with the long-term strategy.
- Empowering people development, identifying talents and rewarding the effort and commitment, through career paths and growth opportunities.

This is how Banco Hipotecario aspires to deploy its strategic plan in 2020, while permanently monitoring macroeconomic variables and accommodating the strategy to potential changes in the prevailing scenario.

8. PROJECT FOR THE DISTRIBUTION OF PROFITS.

Items comprising the project for the distribution of profits	Amounts stated in thousands of AR$
Net income for the year ended December 31, 2019	1,781,531
Net income from the acquisition of a non-controlling interest in Tarshop SAU and BH Valores SA	70,267
Previous years' adjustments	-.-
Sub-total	1,851,798
Amount appropriated to legal reserve (20% of 1,851,798)	(370,360)
Amount appropriated to discretionary reserve for future distribution of profits	**1,481,438**

City of Buenos Aires, March 2, 2020.

On behalf of the Board of Directors of
Banco Hipotecario

EXHIBIT I - SUSTAINABILITY REPORT.

A. OUR FOOTPRINT

Our strategic sustainability plan is approved and monitored by the Committee of Social and Institutional Affairs, which unanimously agreed upon to set aside 3%-5% of the Bank's annual net income to develop projects and programs with a positive impact on the community.

Accordingly, donations are administered in a transparent manner and in line with the business strategy, in accordance with the management guidelines set out in the "Social Responsibility Policy" approved by the Bank's Board of Directors. This document has helped professionalize processes, devise strategies, and systematize sustainable management within the Bank.

We build strong and long-lasting relationships with NGOs countrywide, seeking to address their most specific needs. In association with Argentina's main social leaders and organizations, we tackle several issues which are key to our society.

The work done by the Bank in the community is underpinned by two essential aspects: long-term commitment and federal scope. Both pillars define the institutional approach embraced by the Bank to support local impact project nationwide, fostering social development.

Sustainable Finance Protocol

On November 27, 2019, the Bank reinforced its commitment towards the Argentine financial system, by subscribing the Sustainable Finance Protocol at the Association of Argentine Private Banks (*Asociación de Bancos Privados de Capital Argentino* or ADEBA). Such document was endorsed by ABA, ABAPPRA, IDB Invest and Vida Silvestre.

It is a voluntary initiative leading to implement best practices related to the social and environmental impact of businesses. Some of its mail goals include: adoption of sustainability policies, processes, practices and standards, both in financing activities and investments as well as inside the organizations, in the form of training and awareness actions; development of products and services that encourage the financing of businesses and projects with positive social and environmental impact; environmental and social risk assessments, and promotion of a sustainability culture within the organization.

As an organization committed to sustainable development, the Bank has continued enhancing processes to ensure the positive social and environmental impact of its operations, offering products and services that are conducive to financial inclusion.

Gender-based Violence Response Protocol

In the light of the topics that touch the society and as champions of women's human rights, we subscribed the Gender-based Violence Response Protocol, pursuant to which the Bank established a help program to ensure contention, professional care and empowerment of our female employees who are victims of gender-based violence, whether at home or at the workplace.

The implementation of this initiative was in charge of the Bank's Organizational Development area, together with the Legal and Institutional Relations areas, with the endorsement of the General Manager and the Internal Union Committee.

All individual cases will be kept confidential and dealt with on the basis of accessibility and flexibility principles. Each female employee is entitled to an annual paid leave of up to 10 business days, subsequent or not, which may be extended, if required.

To ensure further contention and the required psychological support, the Bank will work jointly with “La Casa del Encuentro,” a NGO specialized in this topic.

They Matter

In March, the first meeting under the #TheyMatter initiative was held at the Bank’s auditorium. #TheyMatter has been conceived as a series of meetings with five women from different walks of life to talk about several issues related to the role and challenges of women in today's society.

The event was targeted at all employees and accessible to the entire branch network by streaming. The purpose was to call for reflection, within the framework of the International Women's Day celebrated on March 8 every year to commemorate women's global struggle for equality, recognition and enforcement of their rights.

The opening talk—entitled "Women in masculinized worlds: Sharing the ball"—was in charge of Sport Journalist Ángela Lerena (center of the picture), followed by María Luciana Malvazo (fourth place from left to right), founder of a NGO named “De la nada”, who talked about “Learning, perseverance and passion”. Then, journalist Cecilia Boufflet (fifth place from left to right) introduced “The role of women in the economy.” Psychologist Lourdes Vidale, who is also a member of the Bank (second place from left to right), moved the audience with her “I am a winner” monologue. The event closure was in charge of Executive and Oncologist Coach Paula Estrada (first place from left to right), who talked about “The magic of focus.”

These initiatives contribute to the empowerment of our people and are conducive to a relaxed work climate, sensitive to current issues.

B. 2019 PERFORMANCE.

A responsible resource management approach benefits the balance between assets and liabilities. The Bank sticks to the goal of preserving its financial strength and liquidity while ensuring the transparency and sustainability of its operations.

The Bank's performance in 2019 is summarized below:

Financial Impact

Net income for the year of AR$ 1,781.5 million.

Thanks to its product bundle acquisition strategy, the Bank managed to open 62,148 new accounts in pesos.

The Bank also launched the on-line term deposit known as *Plazo Fijo Web,* enabling non-customer individuals to set up term deposits remotely. In 2019, certificates of deposit amounted to AR$ 400 million.

The Bank managed to build a loyal portfolio of over 900,000 active and operational cards, incorporating the “Buhobank” Onboarding channel for customers' self-onboarding by means of an entirely digital process.

Social Impact

Interaction with 512 NGOs.

271,153 people supported by our programs.

AR$ 61.4 million invested in the community.

45 organizations sponsored by volunteers participated in the program to strengthen solidarity initiatives.

276 volunteers.

Environmental Impact

GRI 301 Materials

During the period, the Bank used 105 tons of paper and 3 tons of plastic to produce its core products and services.

3,638 kilograms of paper and 26 kilograms of plastic delivered to the Garrahan Foundation.

All of the Bank's purchases during the period were sourced from local suppliers.

560 pieces of furniture and IT equipment delivered to 38 NGOs under the “Equipados para Dar” (Equipped to Give) program.

GRI 302 Energy

Energy consumption within the organization (GJ)	FY 2019
A) Renewable energy consumption	**0 GJ**
A) Non-renewable energy consumption	**48413507 GJ**
Electric power	42128928 GJ
Diesel	341342 GJ
Natural gas	5943236 GJ
Total energy consumption within the organization: A+B	**48413507 GJ**

GRI 306 Effluents and waste

Mitigation of the environmental impact of products and services:
Wet waste with final disposal at CEAMSE: 20,000 kg per month (-28% vis-a-vis 2018).

Recyclable waste (cardboard, plastic, paper): 4,765 kg per year (-55% vis-a-vis 2018).

GRI 307 Environmental compliance

During the period under review, the Bank has not received any environmental impact claim that should be handled and settled by means of formal complaint mechanisms.

GRI 308 Suppliers' environmental assessment

All of the Bank's newly hired suppliers were assessed on the basis of environmental criteria.

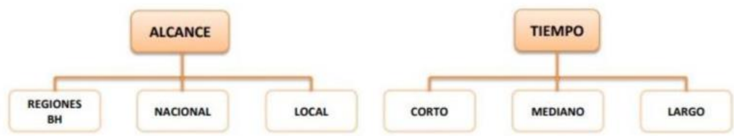
BANCO Hipotecario

C. FIELDS OF ACTIONS IN THE COMMUNITY

In an effort to strategically channel the contributions to the society, the Committee of Social and Institutional Affairs defined several fields of actions, prioritizing areas and topics related to the business and the domestic landscape. Within each of these fields, the Bank supported and boosted programs and actions developed by the same organizations, who are deeply familiar with the several social areas in order for these programs to reach national scale, like our business.

Where "Educación" stands for Education; "Formación" stands for Training; and "Infraestractura" stands for Infrastructure.
"Inclusión" stands for Inclusion; "Inserción laboral" stands for Job placement; "Prevención de la violencia" stands for Prevention of violence.
"Ciudadanía" stands for Citizenship; "Promoción de líderes" stands for Leader development; "Construcción de diálogo" stands for Dialog building.
"Asistencia" stands for "Aid"; "Primaria" stands for Primary; and "Emergencia" stands for Emergency

STRATEGIC VARIABLES



"Alcance" stands for Scope; "Regiones BH" stands for BH's regions; "Nacional" stands for National; and "Local" stands for Local
"Tiempo" stands for Time; "Corto" stands for Short-term; "Mediano" stands for Medium-term; and "Largo" stands for Long-term

The 4 areas of action that guided our work encompassed the following:

Education

The Bank fosters inclusive and comprehensive education for it believes it is a key factor in any society to develop future growth opportunities. From the several approaches and manners to contribute to the development of education, Banco Hipotecario focused on:

- Training: Training delivered to people that are part of the education community, primarily, teachers and students, through professional training and scholarships.
- Infrastructure: Infrastructure improvements and contribution of resources to local schools through local development.

Inclusion

Social inclusion is closely linked to equal opportunities. The Bank endeavors to foster social inclusion by means of the following actions:

- Job Placement: Access to the job market by people from vulnerable communities through the development of skills, tools and trades.

- Prevention of Violence: The Bank champions for the elimination of any form of violence, abuse and discrimination by supporting social organizations engaged in assistance, training and research activities. The Bank also fosters practices to take a comprehensive approach to drug use and abuse, and to develop multiplying agents in this respect.

Citizenship

Banco Hipotecario endorses several projects that encourage people to be actively involved as engaged citizens in decision-making processes, so as to build consensus enabling the development of a more fair and equal community. The Bank supports several citizenship-related initiatives, namely:

- Leaders: It fosters the development of business, political and social leaders that foster development and drive empowerment in their communities to reach sustainable development. These initiatives foster solidarity among several people, including our employees, who contribute resources (time, skills, know how, and materials) to cooperate with NGOs.

- Building Dialog: It encourages interreligious, cross-cultural, social and political dialog as a constructive contribution to diversity-respectful communities.

Direct Aid

The Bank makes direct contributions in the form of financial and material resources to address core social issues that endanger human dignity. The Bank's direct aid contributions are focused on:

- Primary Aid: Support is given to social organizations that strive to guarantee decent food, health and housing conditions in several communities of our country.

- Emergency Aid: The Bank contributes to specific situations resulting from unexpected events that require immediate attention.

In addition to the 4 main fields of actions and their respective sub-areas, the Bank includes two additional strategic variables: time and geographic scope.

- Time: Refers to the support and sponsorship to organizations and projects over the years. This variable embraces the short-term (1 to 3 years), medium-term (4 to 7 years), and long-term (over 8 years).

- Geographic Scope: This variable considers the coverage of the NGOs' projects directly within the territory. The geographic scope may be regional (impact on one or more regions where the Bank has a footprint through its branches, and is related to community activities), national (embracing the entire national territory), and local (community-based, neighborhood or municipal influence).

To the Bank, the relationship with organizations in the medium-term and with regional extent weighs high, for it allows it to take specific actions within each region, according to their needs, while proposing a reasonable period of involvement for projects to be able to continue independently from the Bank. Hence, the relationship goes through a growth process after which the organization attains an installed capacity which allows it to diversify income.

Within the Bank's comprehensive management matrix, the fields of action add a total of 90 points, and the time and scope variables add 10 points to reach a total weighing of 100 points. According to the social agenda, every year the Bank reviews and updates the 90 points corresponding to the fields of actions, allocating such points among them, with none of them getting the same ultimate score.

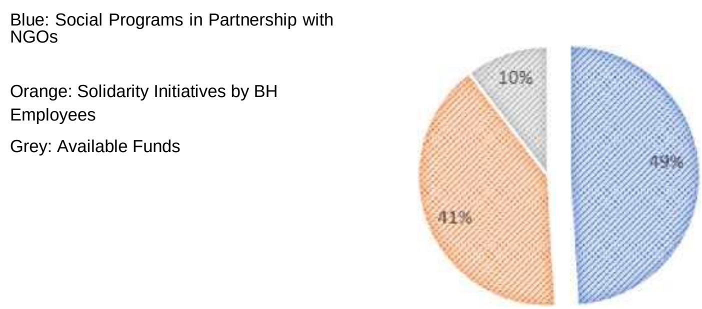
Once these weightings are updated, the projects and NGOs the Bank has worked with are analyzed according to the established fields of actions and the time and scope variables with their related scores. This way the Bank is able to determine the most efficient way in which social investment may help reach annual goals.

In turn, the matrix is underpinned by the Social Responsibility Policy which embodies how the Bank manages its investments in the community, beyond the people who are currently in charge of this duty.

The projects financially sponsored by the Bank in 2019 were distributed as follows: 49% of the projects were related to strategic social programs conducted in association with NGOs, while 41% were related to solidarity initiatives proposed by our employees. The remaining 10% was set aside to establish a fund available for future community actions.

The NGOs supported by the Bank asserted their need for executing short-term projects, focusing on the quality of results, rather than on the large scale impact.

Distribution of Social Programs in 2019



Amidst a rapidly changing and competitive environment, it is essential that companies actively cooperate with education projects and encourage inclusion, in the broadest sense of the term.

Access to employment reshapes people's lives and allows to build a fairer and more equal future for everyone.

It the Bank's commitment to be attentive to the needs of the society and offer possibilities for the development of full-fledged citizens.

D. POSITIVE IMPACT

Digital Innovation

As part of the 2nd National Technology Forum—an event that addresses issues related to the impact of artificial intelligence on business leadership—the Bank received the "LIDE Technology 2019" award.

The Argentine Group of Business Leaders (LIDE) distinguished the Bank for the deployment of scale application and microservice architecture, enabling digital onboarding for new customers, at www.buhobank.com.ar. With this launch, the Bank has become the first financial institution in having an entirely on-line customer onboarding channel, with on-line biometric identity verification, approved by the National Population Registry.

At the Búhobank platform, new customers may access a product offering, including credit and debit cards, and transactional and investment accounts, with exclusive benefits, just by entering their personal details and a selfie.

The award was received by Julieta Albala, Systems and Technology Manager. In her own words, "At Banco Hipotecario, we have decided to engage in a digital innovation process involving the services used by our channels. The project was meant to upgrade and enhance our service infrastructure, laying the groundwork to direct the business towards an Open Banking model."

Thanks to technological innovation and service quality, we strive to deliver comprehensive solutions that streamline and enhance our customers' experience nationwide, every time they operate with their accounts.

BYMA Sustainability Index

The Bank took part in the first Sustainability Index compiled by BYMA (Bolsas y Mercados Argentinos) which, together with the IDB (Inter-American Development Bank), and the academic support of the Earth Institute of Columbia University, was rebalanced by the end of 2019.

The Index is non-commercial in nature and assesses the performance of BYMA-listed issuers with largest liquidity levels which have comprised the Merval index in recent years, in four ESG-D pillars (environment, social, sustainable development, and corporate governance), based on reported and publicly available information. The data analysis methodology is based on IndexAmericas and data collection was in charge of Refinitiv.

COMPANIES COMPRISING THE BYMA SUSTAINABILITY INDEX IN 2019

The Index is comprised by 15 companies sorted out in alphabetical order:

BANCO HIPOTECARIO SA
BANCO MACRO SA
BANCO BBVA ARGENTINA SA
BOLSAS Y MERCADOS ARGENTINOS SA
CENTRAL PUERTO SA
EMPRESA DISTRIBUIDORA Y COMERCIALIZADORA DEL NORTE SA
GRUPO FINANCIERO GALICIA S A
GRUPO SUPERVIELLE SA
PAMPA ENERGIA SA
SAN MIGUEL SA
TELECOM ARGENTINA SA
TERNIUM ARGENTINA SA
TRANSPORTADORA DE GAS DEL NORTE SA
TRANSPORTADORA DE GAS DEL SUR SA.
YPF SA

Such a recognition encourages us to keep challenging our operations and spotlight opportunities for improvements in different processes conducive to business sustainability.

Urban Soil Municipal Management

After having developed the "urban soil generation and consolidation ratio," the NGOs TECHO and RIL (*Red de Innovación Local* or Local Innovation Network) designed a sample of 100 municipalities that will be required to answer the self-assessment. Such self-assessment inquiries about several areas: city vision, strategies, instruments and information in order to generate and make visible relevant municipal management data to develop sustainable and integrated cities.

This project, which was conceived by the Bank, contributes to its institutional strengthening, honoring its historical social mission and empowering local communities in the comprehensive management of urban soil.

By December 2019, 72 municipalities had fully responded the survey, with the "instruments" category being the one that received the lowest scores, compared to the others. In general terms, half of the districts reported to have a digital cadastral map, 25% of the districts have a program of lots with utilities in place; almost 70% have regulations governing land use and division; and only 39 districts have updated an urban plan in the last decade. In 2020, the answers to the survey from a representative sample of municipalities will be verified on site to spotlight municipalities that pose opportunities for improvement in their management practices, and those which are already implementing good practices in this regard.

This project encourages the Bank to be actively involved in processes that enable urban development with increased social integration and equity, and that provide municipal management with further environmental sustainability and transparency, in order to cooperate with the implementation of better public policies.

Corporate Voluntarism (Vivienda Digna)

In December, volunteers from our head office visited the "Suelo Firme" project, driven by the ONG Vivienda Digna and painted two housing units. Such actions strengthen the relationship with the value chain and help encourage a solidarity spirit within the organization.

Corporate voluntarism is a true pillar of our organizational culture. This solidarity action serves as an example of how empowering our employees generates a positive impact inside and outside the Bank.

"Unidos para Dar" Program

This program convenes employees from the head office and the branch network, and helps strengthen the bonds with NGOs of their referential world. It poses an opportunity to build the solidarity spirit inside the Bank and keep strengthening the federal scope of our business.

The huge potential of this program empowers employees and fosters the coverage of our organizational commitment nationwide, reaching districts located far from major capital cities and arranging for solidarity actions with community-based organizations.

With this program, the Bank seeks to support people living under financially and socially poor conditions. Therefore, upon the start of school, the Bank gave away school supplies and materials to learning institutions and several NGOs countrywide. In Easter and Christmas, the Bank donated non-perishable food, and handed out food and shelter before the commencement of the winter season.

The Bank also supports entities that strive to guarantee decent food, health and housing conditions to children, young and old people, and families. This interaction boosts the “Direct Aid” area, providing consistency to the "Unidos para Dar" program.

In 2019, the Christmas edition convened employees from all branches in the country. Considering its 4 editions, "Unidos para Dar" accounted for a total annual investment of AR$ 7.3 million.

UNIDOS PARA DAR	START OF SCHOOL	EASTER	WINTER	CHRISTMAS
Participating Branches	58	48	48	62
Beneficiary NGOs	179	149	146	132
Beneficiaries	4,200	68,160	17,972	78,240


Start of School - Vientos Limpios - Barracas


Christmas - Scout Group San Ignacio de Loyola -Buenos Aires


Easter - Escuela Especial N° 1 Clotilde de Fernández Ramos - Misiones

In 2019, the Bank had a team of 276 active volunteers, 43 of whom put forward solidarity initiatives for the Bank to provide financial support to its sponsored NGOs. The remaining 233 volunteers (that is, 84% of the total) are actively engaged in the "Unidos para Dar" program. The strategic role of this program strengthens the federal nature of the Bank and has a substantial impact, with a low investment (12% of the annual budget) on the relationship with several NGOs.

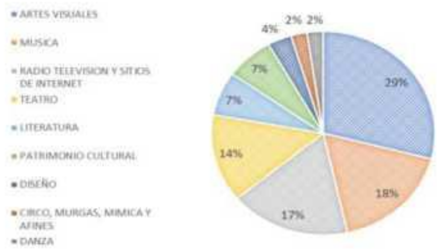
Patronage Law

The Cultural Participation Law No. 6,026 was enacted in October 2019, which superseded the former Patronage Law. With this enactment, the Ministry of Culture of the City of Buenos Aires urges businesses to become more actively involved in cultural promotion.

After 8 consecutive years of sustained support to several cultural heritage preservation initiatives and efforts addressed to promote new generations of artists, the Bank was distinguished at an event held on October 16 at the Fernández Blanco museum.

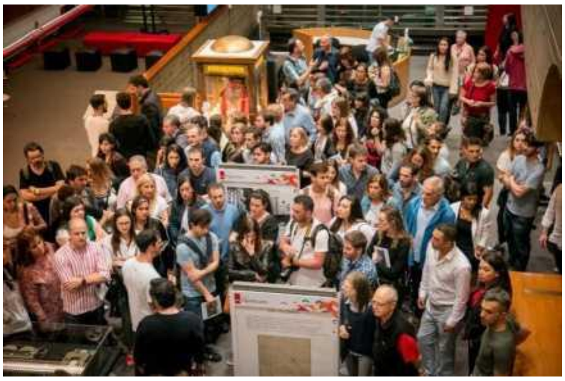
In 2019, the Bank allocated AR$ 28 million to 86 projects. The following table summarizes the distribution of such projects, by art field.

According to a resolution passed by the Committee of Social and Institutional Affairs, upon the enactment of the implementing regulations to the new Law, the Bank will take over the role of "sponsor", reinforcing its commitment to cultural heritage.



[References, from top to bottom: Visual Arts; Music; Radio, TV and Web Sites; Theater; Literature; Cultural Heritage; Design; Circus, Street Bands, Mimics and the like; Dances]

The Museums' Night



On November 2, 2019, and for fourth consecutive year, Banco Hipotecario opened the doors of its hallmark headquarters building during the traditional "Museums' Night", organized by the government of the City of Buenos Aires, having received over 6,000 visitors.

The first part of the visit was an account of the Bank's history. Visitors could see a photo exhibition, allegoric objects that reflect the several stages in the Bank's history, and an exhibition of commemorative medals. During the second part of the visit, visitors could see original drawings, photos and a mock-up belonging to the Testa Foundation. Visitors had access to technical talks about architecture, and could have a look at audiovisuals showing the impressive work by Architect Clorindo Testa.

The Bank's Media department was in charge of the overall organization of the event, with the engagement of several other areas, including technical support, maintenance, advertising, procurement, opinions and contracts, architecture and design, infrastructure and asset management, organizational development, and security.

E. SUSTAINABILITY STRATEGY FOR 2020

One of our main challenges for 2020 will be moving forward with the service model transformation process, with emphasis on the Bank's technological innovation and service quality.

Banco Hipotecario is one of the most traditional institutions in the Argentine financial system and, as an active promoter of universal banking, seeks to make a contribution to social development.

We build long-lasting bonds with individuals, families and NGOs, learning about existing needs and facilitating resources, products and services in the face of the prevailing macroeconomic landscape.

In 2020, the Bank will set aside 3%-5% of its profits for the year to social projects, with emphasis on those focused on education and inclusion. The Bank will contribute to the execution of programs offering tools that foster employability nationwide.

The Bank plans to continue deploying its "Unidos para Dar" program throughout 2020, handing out materials to NGOs nationwide and empowering our employees in their relationships with such organizations. Hence, internal volunteers constitute a core pillar of the organizational culture.

We will continue supporting projects aimed at delivering professional training and scholarships for teachers and students, as well as projects leading to enhance the infrastructure of several Argentine schools. We will also continue cooperating with NGOs engaged in fostering social inclusion by means of job placement programs, and with those that endeavor to ensure decent food, health and housing conditions.

Besides, the Bank will deploy the last stage of the urban soil municipal management ranking, through which TECHO and RIL will carry out a territorial survey and, based on the information gathered from this initiative, best practices will be recognized and endeavors will be made to implement improvements in some municipalities' management practices.

The Bank's senior management will arrange new visits to NGOs, in order for our leaders to get closer to several social realities and have direct contact with the NGOs' authorities and the beneficiaries of each project.

In line with the deployment of ongoing improvement processes, the Bank will assess proposals to update risk analysis systems to incorporate socio-environmental impact assessments.

In view of the preparation of a Combined Report, following the publication of this Comprehensive Annual Report, the Bank will publish its Sustainability Report on its website, according to the international standards of the Global Reporting Initiative (GRI) and will engage in the identification of actions that help implement the Sustainable Development Goals (SDGs).

(In addition, the Bank will publish its 2019 Sustainability Report, following the guidelines set out in the international standards of the Global Reporting Initiative (GRI), describing the economic, environmental and social impacts of Banco Hipotecario SA.'s activities in 2019. Such document will also include a discussion of the Bank's degree of contribution to the Global Sustainable Development Agenda driven by the United Nations -SDGs-).

EXHIBIT II - REPORT ON THE CORPORATE GOVERNANCE CODE.

This report was prepared on the basis of the guidelines of the good corporate governance rules and regulations handed down by the Argentine Securities Commission, according to which managers should produce information specifically concerning the actions of the Board for the benefit of all shareholders and the market at length.

As required by the Argentine Securities Commission, we have included one comment on each one of the items described below:

A. THE ROLE OF THE BOARD OF DIRECTORS.

Principles

I. The company should be headed by a professional and qualified Board tasked with laying the necessary foundations to ensure the company's sustainable success. The Board is the guardian of the company and watches for its shareholders' rights.

II. The Board shall frame and foster the corporate culture and values. In discharging its duties, the Board shall ensure compliance with the highest standards of ethics and integrity, based on the company's best interest.

III. The Board shall ensure a strategy inspired on the company's vision and mission, aligned with its corporate values and culture. The Board shall be constructively involved with management to ensure the Company's strategy is appropriately developed, executed, monitored, and amended.

IV. The Board shall monitor and oversee the company's management on an ongoing basis, ensuring that managers take actions addressed at executing the business strategy and plan approved by the Board.

V. The Board shall have all such necessary mechanisms and policies for it and each of its members to be able to discharge their duties efficiently and effectively

1. ***The Board inspires an ethical workplace culture and establishes the company's mission, vision and values.***

   Banco Hipotecario and its subsidiaries have Codes of Ethics and Conduct in place that serve to formalize, communicate and convey to the business community and stakeholders the principles and guidelines of the corporate culture and values that should guide the actions and performance of the Bank's and its subsidiaries' members.

   By means of the Directors' and Employees' Ethics Committees required by the Code of Ethics, and through their respective members, the Bank fosters, monitors and enforces the principles and guidelines enshrined in such Code. The principles are described under the following captions: (1) Treatment of BHSA's Employees and Job Candidates; (2) Workplace Safety; (3) Penalty System; Members of the Bank with Different Abilities; (4) Fundamental Standards of Ethics: (a) Honesty, (b) Conflicts of Interest, (c) Business Relationships, (d) Business Practices, Laws and Other Regulations, (e) International Transactions, (f) Gifts and Entertainment, (g) Representation Activities, (h) Political Contributions, (i) Security Trading, (j) Regulatory Aspects, and (k) Use of Working Tools (IT and Communications).

2. ***The Board sets the Company's overall strategy and approves the strategic plan developed by management. In doing so, the Board takes into consideration environmental,***

social and corporate governance factors. The Board oversees the strategy execution by using key performance indicators, taking into account the company's best interests and its shareholders' rights.

Every year, the Bank's Board of Directors prepares a "Business Plan and Projections," to deliver against its strategic plan, which is in turn submitted to the Central Bank on a confidential basis. This information is prepared and submitted to the Central Bank arranged under the following captions: (I) Business Plan; (II) Projections; (III) Macroeconomic Assumptions; (IV) Stress Testing, and (V) Capital Self-assessment Report (IAC).

The operational execution of such plan is the responsibility of the respective management lines, while the Board of Directors is in charge of monitoring the delivery against the plan through metrics which are monthly reported in a scorecard.

On the other hand, paragraph P.1.e of the Corporate Governance Code sets forth that one of the core oversight and coordination principles of subsidiaries shall comprise a business plan and budget, in which every year subsidiaries are required to prepare the plan and budget to be executed the following year. Both shall be prepared in accordance with the general guidelines set out by Banco Hipotecario.

3. ***The Board oversees management and ensures managers develop, deploy and maintain an adequate internal control system, with clear reporting lines.***

The Board of Director itself, by means of the information it receives for consideration at its meetings or through several Committees and primarily through the control performed by the Audit Committee, generates an adequate internal control environment at the Bank and its subsidiaries.

The Board of Directors' Committees in charge of such duties include: (1) Executive Committee, (2) Audit Committee, (3) Control and Prevention of Money Laundering and Terrorist Financing, (4) Information Technology, (5) Credit, (6) Risk Management, (7) Corporate Governance, (8) Financial, (9) Social and Institutional Affairs, (10) Employee Incentives, (11) Directors' Ethics, (12) Employee Ethics, and (13) Protection of Financial Services Users. Each Committee has internal rules of operation.

Managers and subject-matter experts in charge of such Committees submit the several topics for consideration by the designated directors and, based on their respective backgrounds and along with their discussions, directors pass resolutions by majority of votes of present members.

It should be noted that managers and subject-matter experts convened to participate in such Committees have voice but no vote.

4. ***The Board designs the corporate governance structures and practices, appoints the individuals responsible for their execution, monitors the effectiveness of such structures and practices, and suggests changes, as needed.***

The design of the Bank's organizational structure is in charge of the Executive Committee, as required in the Bank's By-laws. The Executive Committee reports directly to the Board and is comprised by Class D Directors.

The Corporate Governance practices are enshrined in the Corporate Governance Code and the Corporate Governance Committee is charge of ensuring compliance with such practices.

5. ***The Board's members have sufficient time to discharge their duties in a professional and efficient manner. The Board and its committees have clear and documented operating and organizational rules, which are disclosed through the Company's website.***

Directors engage sufficient time to prepare for their own meetings and the meetings of the Committees they are part of. During the year, directors receive training to keep abreast of the most relevant issues related to the sector.

The rules of operation of the Board of Directors and its Committees are clearly stated in the Corporate Governance Code and its Exhibit entitled "Rules of Operation of the Board of Directors' Committees."

The document containing said rules is published in the institutional web site, the CNV's web site and the Bank's intranet.

B. BOARD OF DIRECTOR'S CHAIRMAN AND CORPORATE SECRETARY.

Principles

VI. The Board's Chairman shall watch for the effective discharge of the Board's duties and shall lead its members. The Chairman shall encourage a positive workplace dynamics and foster the constructive engagement of its members, while ensuring that they are equipped with the necessary information and elements for decision-making. This also applies to the chairperson of each of the Board's Committees, to the extent of their respective duties.

VII. The Board's Chairman shall lead processes and establish structures seeking members' commitment, objectivity and competence, as well as the best operation of the Board as a whole, and its evolution according to the Company's needs.

VIII. The Board's Chairman shall ensure that the entire Board is involved in and accountable for the Chief Executive Officer's succession.

6. ***The Board's Chairman is responsible for the good organization of the Board's meetings, and shall prepare the meeting agenda, ensuring the collaboration from the other members and that they receive the necessary materials with sufficient time ahead for an efficient and informed participation at meetings. The chairpersons of the Board's Committees shall have the same responsibilities in respect of their meetings.***

The Board of Directors' chairman, with the assistance of the Bank's General Secretary, prepares the meeting agenda and hands out the material among all members. In light of the majority interest the Argentine government owns in the Bank's capital stock, the Entity is subject to Decree 1278/2012 and Resolution 191-E/2017 handed down by the Ministry of Finance, which establishes the methodology to ensure that the information to be considered at the meetings of corporate bodies (Shareholders' Meetings, Board of Directors, Executive Committee, and Audit Committee) shall be made available forthwith to the Secretariat of Financial Services, under the purview of the Ministry of Finance. Early information submission is required for the Argentine government, in its capacity as shareholder, to be able to deliver instructions to directors for them to participate and cast a vote at the respective meeting.

7. ***The Board's chairman watches for the appropriate internal operation of the Board, by implementing formal appraisal processes on an annual basis.***

The Board of Directors' chairman, in this case, with the assistance of the Regulatory Compliance Department which is part of the Bank's Legal Area, carries on the Board of Directors' self-assessment process, as described in the Corporate Governance Code under paragraph H.9. "Performance Appraisal."

Such a process has two levels of assessment: one of them global and the other one, individual. The global assessment is carried out by directors through answers to questions made to members about the Board of Directors' operation. At the individual level, each director expresses his/her points of view and rates the several topics related to the operation of the Board.

8. ***The chairman inspires a positive and constructive workplace for all of the Board's members, ensuring that they receive ongoing training to stay current and be able to discharge their duties effectively.***

Every year, the Chairman, along with the Legal Area department (Regulatory Compliance and Office of the General Secretary to the Board of Directors), arranges for Directors' attendance to lectures and speeches from economists and banking experts, by developing internal and external training programs, in order to keep them updated on industry issues, and based on such training activities equip them with the knowledge required to discharge their duties.

Besides, all rules and regulations governing the Committees comprised by directors set forth that they should receive training on issues related to the duties of each Committee and in order to get familiar with the Bank and its businesses.

During the year under review, directors received training on the following topics: International Financial Reporting Standards and Financial Statements Inflation Adjustment.

9. The Office of the Corporate Secretary supports the Board's Chairman in ensuring the effective administration of the Board, and cooperates with the communication among shareholders, the Board, and management.

Paragraph H.13 “General Secretary to the Board of Directors” of the Corporate Governance Code provides for the creation of a body to assist the Entity's chairman in effectively handling the communication of the several topics to be discussed or the Bank's interests with and among shareholders, directors and managers.

10. The Board's Chairman ensures the engagement of all of its members in the development and approval of a succession plan for the Company’s CEO.

Paragraph H.12 “Duties of the Board of Directors' Chairman” of our Corporate Governance Code provides that the chairman shall be responsible for the CEO's succession plan and ensure that the Board of Directors is entirely involved in that process.

C. BOARD'S COMPOSITION, NOMINATION, AND SUCCESSION.

Principles

IX. The Board shall have sufficient levels of independence and diversity so as to be able to make decisions in the Company's best interest, avoiding groupthink and decision-making by dominant individuals or groups within the Board.

X. The Board shall ensure that the Company has formal procedures in place to propose and nominate candidates to fill seats at the Board, within the framework of a succession plan.

11. The Board has, at least, two independent members, according to the then-current criteria set out by the Argentine National Securities Commission (CNV).

The Entity's capital structure and shareholders' representation within the Board are compliant with the provisions of Banco Hipotecario's Privatization Law No. 24,855. Accordingly, shareholders have not established a formal policy on the minimum percentage of Independent Directors that should comprise the Bank's Board of Directors. On the other hand, the Board may not ensure an equal treatment in the disclosure of the independent status of each proposed designation, since the Board of Directors is made up of Directors elected by the public sector and the private sector, in the latter case, subject to the Central Bank's previous consent.

According to the Corporate Governance Code, some Independent Directors should be designated to participate in certain Board of Directors' Committees. As established in the Central Bank's rules, at least two thirds of total seats should preferably be covered by directors with past experience in finance. Directors may not take office until such time as they are authorized by the Central Bank, except for Director elected by the government, which may discharge duties "on commission."

Paragraph H.3 of said Code sets forth the eligibility requirements a Bank's director should meet to be regarded as independent.

Directors representing the Argentine government's rights (two for Class A and one for Class C) always maintain their independent status, as stated in Section 13, Article III, Chapter III of the Issuers' Book.

At present, two (2) out of the thirteen directors of the Bank are independent.

12. The Company has a Nomination Committee made up of, at least, three (3) members and chaired by an independent director. If the Board's Chairman presides over the Nomination Committee, then he/she shall not be engaged in the discussion to appoint his/her own successor.

The Bank does not have a Nomination Committee in place to ensure adequate independence and diversity levels to be able to make succession decisions in the best interests of the Company since, according to BHN Privatization Law (Law No. 24,855) and the By-laws, the members of the Bank's Board of Directors should be elected at special meetings involving certain share classes. Accordingly, the Bank may not create a Nomination Committee with the features and duties recommended by the CNV.

However, when formally nominating directors at individual Class A, B, C and D share meetings, shareholders seek to fulfill adequate independence and diversity levels to make succession decisions in the best interest of the Company.

13. *The Board, through its Nomination Committee, develops a succession plan for its members which guides the short-listing of candidates to fill vacant seats, and contemplates the non-binding recommendations of its members, the CEO, and the shareholders.*

Not applicable. See answer in item 12 above.

14. *The Board implements an onboarding program for its newly elected members.*

Not applicable. See answer in item 12 above.

D. REMUNERATION.

Principles

XI. The Board shall create compensation-linked incentives to cause management – headed by the CEO – and the Board itself to be aligned with the Company's long-term interests in such manner as all directors comply with their duties towards all shareholders in an equal and fair manner.

15. The company has a Remuneration Committee made up of, at least, three (3) members. Its members are all independent or non-executive directors.

As required by the Central Bank Communiqué "A" 5201 and Communiqué "A" 5218, the Bank has an Employee Incentive Committee primarily tasked with watching for the incentive system, and responsible for: (i) establishing policies and practices to offer employees financial incentives for their risk, capital and liquidity management activities, (ii) ensuring that the policy on employees' financial incentives is consistent with the guidelines set out in applicable laws and regulations, and (iii) establishing that the financial incentives offered to the entity's members: (a) are commensurate with the individual and the business unit's contribution to the Bank's performance, (b) are set in line with the goals of the Bank's shareholders, and (c) are sensitive to risk time horizon, and (iv) encouraging and arranging the annual assessment of the employee's financial incentive system, carried out by an independent area within the Bank or by an external agency.

Even though such Committee does not meet all conditions required by the Remuneration Committee pursuant to the CNV rules (including composition), it is intended to monitor and/or watch for the design of the employees' financial incentive system, considering the risks assumed on behalf of the Entity, both in the past and in the future, and adjusting incentives based on all risks, including those which are difficult to measure, such as liquidity and reputational risks and cost of capital.

16. The Board, through its Remuneration Committee, sets a remuneration policy for the CEO and the Board's members.

Since the Board of Directors does not have a Remuneration Committee in place, its Employees' Incentive Committee sets out senior management's assessment policy (including the CEO's). Such assessment is formally carried out on an annual basis, together with a rating process encompassing all Bank's employees, concurrently with an ongoing feedback policy.

As regards the Board of Directors' fees, section 14 of the by-laws sets forth as follows: (a) Non-executive members: the duties of the non-executive members of the Board of Directors shall be paid on the basis of a global amount annually established by the Ordinary Shareholders' Meeting which amount shall be equally distributed amongst these members and among their alternate members pro rata of the time during which they were effectively substituting for regular members. The Ordinary Shareholders Meeting shall authorize any amounts that may be paid on account of such fees during the current fiscal year, subject to the approval of the shareholders' meeting called to approve said fiscal year; (b) Executive members: the Chairman and remaining Entity Directors who perform managerial, technical and administrative duties or who are members of special committees shall be paid for such functions or involvement in committees in line with the fees currently paid in the market for similar tasks in an amount to be fixed by the Board of Directors with the abstention of the parties mentioned and shall be subject to the approval of the Shareholders' Meeting; (c) Executive Committee members: the Directors who make up the Executive Committee and carry out the tasks provided for in section 19 of the by-laws shall be paid a bonus component equivalent to the amount resulting from deducting the fees of non-executive directors and the compensation payable to the Chairman and Directors in charge of specific functions as approved by the Ordinary Shareholders' Meeting for that same fiscal year from the maximum amount provided for in (d) below.

The amount of this bonus component shall be distributed amongst the members of the Executive Committee following instructions imparted by the Executive Committee itself; (d) Maximum amount: the total amount of the compensation payable to the Directors, as paid or approved by application of the provisions in preceding paragraphs (a), (b) and (c) shall be limited to 5% of earnings net of tax for any given fiscal year in which no cash dividends are being distributed for any reason whatsoever, which amount shall be increased pro rata of the existence of dividends in cash up to a maximum percentage of 15% of computable income, as established in the Entity’s by-laws; (e) insufficient earnings: in the event no income were generated in a given fiscal year or in the event income had been reduced to afford payment of the compensation provided for in preceding paragraphs (a), (b) and (c) which calls for an extension of the limits fixed in the preceding paragraph (d) and/or those established in section 261 of Law No. 19,550, may only be paid if expressly approved by the Ordinary Shareholders’ Meeting.

E. CONTROL ENVIRONMENT.

Principles

XII. The Board shall ensure a control environment is in place, comprising internal controls developed by management, internal auditors, risk management, regulatory compliance, and external auditors, which established the necessary lines of defense to ensure integrity in Company's operations and financial reporting.

XIII. The Board shall ensure that a comprehensive risk management system is in place that will efficiently guide management and the Board to achieve their strategic goals.

XIV. The Board shall ensure that an individual or department is in place (based on the size and complexity of the business, the nature of its operations, and the risks it is exposed to) responsible for the Company's internal audit. Internal auditors—tasked with assessing and auditing internal controls, corporate governance processes, and the Company's risk management—must be independent and unbiased, with clearly established reporting lines.

XV. The Board's Audit Committee is comprised by qualified and experienced members and shall discharge its duties in a transparent and independent manner.

XVI. The Board must establish suitable procedures to ensure External Auditors' independence and effective performance of their work.

17. ***The Board determines the Company's risk appetite, while also overseeing and ensuring that a comprehensive risk management system is in place to identify, assess, cope with and monitor the risks the Company is exposed to, including, without limitation, environmental, social, and business-inherent risks, in the short and long term.***

The Board of Directors has established that, on a quarterly basis, the Board of Directors itself or its Committees should receive reports containing a discussion on the execution and fulfillment of the risk appetite variables. Besides, the Board of Directors monitors the expense budget reviewing the existing deviation between actual vs. budgeted expenses (amounts and % by different cost centers and budgetary items).

Also on a quarterly basis, the Board of Directors monitors and reviews the achievement of commercial targets, investment progress and performance of the several products (revenue generation and P&L impact) and annually determines the extent to which the stated goals have been achieved.

On the other hand, the Bank periodically prepares a scorecard aimed at monitoring the Bank's status vis-a-vis several control environments, such as business, customers, employees, and the organization.

The above-described information, together with benchmark studies, market share calculations, profitability analysis by business unit, profitability by product and branch, daily follow-up on loan origination and deposit taking, is submitted on a daily up to a monthly basis to senior management at several management staff and committee meetings.

Besides, in line with Communiqué "A" 5398, as amended and supplemented, the Bank has designed and created a Risk Management Committee made up by directors and subject-matter experts. That Committee is tasked with making risk analysis presentations in order to adequately assess future potential scenarios to manage the Bank. The Committee relies on stress tests, in which it basically reviews the impact of changes in market financial variables on the Entity's profit and loss account.

Subsequent to discussion and resolution by such Committee, the resolutions so passed are submitted to the Board for consideration.

Finally, Paragraphs H.7.b. and J.2.a. of the Corporate Governance Code sets forth that, as part of their respective responsibilities, directors, the CEO and senior management are liable for managing the several risks inherent to the banking business, in which Banco Hipotecario is immersed. Within the framework of the risk management policy, "comprehensive risk management" is defined as a process carried on by the Board of Directors, senior management and all of the Bank's employees and which is applied to the definition of the necessary strategy to identify potential events that may affect it and to manage such risks according to the previously set tolerance level, so as to provide a reasonable degree of assurance as to the achievement of the Bank's goals. This policy also establishes a comprehensive risk management framework which includes defining policies, organizational structures and specific procedures (including the application of control tests, stress tests, risk tolerance levels, risk maps, product programs, etc.) regarding each individual risk that has been identified.

On the other hand, the Bank has risk management strategies approved by the Board, including the definition of tolerance thresholds or levels for each of the main risks the Bank is exposed to. These thresholds are reviewed, at least, on an annual basis, as part of the Business Plan development process, which shall be then submitted for approval by the Entity's Board of Directors.

18. The Board monitors and reviews the effectiveness of the work done by independent internal auditors and ensures the necessary resources for the execution of an annual risk-based audit plan and a direct reporting line to the Audit Committee.

In compliance with paragraph N.4. of the Corporate Governance Code, the Bank's Board of Directors has defined that the Group's highest-ranking internal auditor will report to the Board of Directors. To the extent the internal auditor function is not discharged by a director, then, for the sake of ensuring sufficient unbiased judgment, such function shall be performed by an employee of the Entity, independently from the other areas comprising the organizational structure, seeking to form the judgments included in the internal auditor's plans and reports on the basis of objectivity and fairness.

Every year, auditors are required to submit their work and staff plan on the basis of the risks the Bank is exposed to. As a result of the planning and work done to assess the Entity's internal control environment, the internal auditors will prepare reports for each relevant cycle under review, in such manners as they may deem convenient and which may reflect partial aspects of the control activities. The reports will describe the scope of the work performed, any deficiency that has been identified, and its impacts on the Entity's control structure or financial information, as the case may be, and recommendations to address such deficiencies.

The Audit function is performed in accordance with the rules handed down by the Central Bank, which are based on the guidelines enshrined in international best practices, primarily, on the conceptual framework of COSO—Committee of Sponsoring Organizations of the Treadway Commission—. Besides, the Bank relies on the Manual of Internal Audit Operating Practices, which was conceived on the basis of the internal audit professional standards issued by the Institute of Internal Auditors which embrace auditor's independence and annual planning criteria, considering the following categories: (a) strategic goals, (b) operational effectiveness and efficiency, (c) information reliability, y (d) compliance with applicable laws and regulations and internal control components, namely: (a) internal environment, (b) risk assessment, (c) control activities, (d) information and communication, and (e) monitoring.

19. The internal auditor or the members of the Internal Audit department are independent and highly trained.

Paragraph N.4.a “Internal Auditor's Independence” of the Corporate Governance Code states that: (a) objectivity means acting on the basis of the truth of the facts and other related circumstances (actions, situations, evidence, unrestricted access to sectors and information), allowing the auditor to have a strong basis to form judgments and opinions, with no distortions resulting from specific conditioning factors. Auditors are expected to maintain and display an objective and independent conduct towards their auditees, and should be regarded as such by third parties. Independent judgment on the part of Internal Auditors should be a state of mind, characterized by a high sense of ethics, revealed by a respectful behavior towards expressing the truth, aware of the responsibility towards the community attached to their corporate control duty, (b) internal auditors should evaluate whether there are internal or external interference or hindrances affecting their attitude and determination to proceed with their work in an objective and fair manner, without giving rise to challenges against their independent judgment in discharging their duties, (c) the genuine intellectual effort involved in objectivity may only be reinforced on the basis of conditions which allow to recognize such state of mind in the internal auditor. The internal auditor and his/her team should always avoid situations in which they may feel unable to express objective professional judgments. That paragraph also details internal or personal hindrances that may pose an actual or potential detriment or conflict of interest in the Internal Audit function.

Besides, the discharge of Internal Auditors’ duties should not fall within the prohibitions and incompatibilities set forth in Section 264 of Law No. 19,550 and Section 10 of Law No. 21,526. On the other hand, internal auditors are expected to have previous and ascertainable experience. For as long as the Argentine government maintains a majority interest in the Bank's capital stock, the individual discharging the duty of internal auditor shall meet the requirements of Decree No. 971/1993, and Resolution No. 17/2006 of the National Audit Office.

20. The Board has an Audit Committee whose actions are guided by a set of rules. The Committee is mostly comprised and chaired by independent directors, excluding the CEO. Most members have professional experience in finance and accounting.

The Bank has an Audit Committee in place. In this regard, Exhibit D to the Corporate Governance Code details the operating rules and regulations for the Board of Directors' Committees, including those governing the Audit Committee.

Directors who are members of the Committee are independent within the meaning of Section 13, Article III, Chapter III of the Issuers' Book. The Bank's CEO is not a member of the Audit Committee.

21. The Board, in consultation with the Audit Committee, approves the external auditors’ selection and monitoring policy, which establishes the criteria to be relied upon when recommending, at the time of the Shareholders’ Meeting, whether to keep or replace the external auditors.

The policy applicable to External Auditors is established in paragraph N.3 “External Auditors”, items a) and b) of the Corporate Governance Code. Such policy sets out External Auditors' eligibility, turnover and hiring requirements.

F. ETHICS, INTEGRITY AND COMPLIANCE.

Principles

XVII. The Board shall design and establish appropriate structures and practices to foster a culture of ethics, integrity and regulatory compliance which helps prevent, detect and address serious corporate or personal misconduct.

XVIII. The Board shall ensure that formal mechanisms are in place to prevent, or otherwise deal with, conflicts of interest that may arise in the Company's administration and management. It shall have formal procedures in place that seek to ensure that related party transactions are carried out in the Company's best interests and that fair treatment is afforded to all shareholders.

22. The Board approves a Code of Ethics and Conduct reflecting ethical and integrity values and principles and the Company's culture. The Code of Ethics and Conduct is distributed among and applicable to all of the Company's directors, managers and employees.

The Bank has a Code of Ethics and a Code of Conduct in place published at its website (internal and external) and also at AIF, which is an online channel enabled by the CNV to communicate with the companies under its oversight.

The Entity has committed to conducting its business and social activities, abiding by the highest ethical standards, efficiency, quality, dedication and transparency. According to such Code, each and every member of Banco Hipotecario is expected to understand his/her responsibility for complying with the ethical standards and values embraced by the Bank.

The Code of Ethics summarizes the general guidelines that should guide the conduct of the Bank and all of its members in discharging their duties and in their respective business and professional relationships. It should be noted that nobody, regardless of the function or senior position at the Bank, has authority to make exceptions to the Code of Ethics.

The core guidelines of the Code of Ethics include: (a) Honesty, (b) Conflicts of Interest, (c) Business Relationships, (d) Business Practices, Laws and Other Regulations, (e) International Transactions, (f) Relationships with Customers, Suppliers, Vendors, Agents, and Government Officials and Entities, (g) Representation Activities, (h) Political Contributions, and (i) Security Trading.

Such codes are accepted and subscribed by all directors, managers and all other employees at the time of joining the Bank. In turn, all of the Bank's employees may access the language of the Code, which is published at the home page of the Bank's intranet. The acknowledgment process by all Bank's members is periodically reconfirmed.

23. The Board establishes and periodically reviews an Ethics and Integrity Program, based on the Company's risks, size and financial capacity. The plan is clearly and ostensibly supported by management, by designating one among them who shall be responsible for developing, coordinating, overseeing and assessing the program effectiveness on a periodical basis. The program encompasses: (i) regular ethics, integrity and compliance training delivered to directors, managers and employees; (ii) internal channels to report irregular situations, open to third parties and adequately communicated; (iii) a policy to protect whistleblowers against retaliation, and an internal investigation system which respects the investigation subjects' rights and imposes effective punishments in case of infringements to the Code of Ethics and Conduct; (iv) a policy of integrity in tender processes; (v) mechanisms for the periodical analysis of risks, monitoring and assessment of the Program; and (vi) procedures to see to the integrity and track record of third parties or business partners (including due diligence to detect irregular situations, unlawful acts, or existing vulnerabilities in corporate reorganizations and acquisitions), including suppliers, distributors, service providers, agents and intermediaries.

Periodically, the Bank delivers e-learning courses on the Code of Ethics.

Employees may resort to internal channels made available by the Bank free of charge to raise concerns about or report any potential infringement to the Code of Ethics. Such communication channel is known as “Line of Ethics”. The Line of Ethics may be reached by several means, including: (a) phone: 0800-222-3368; (b) e-mail: lineaeticabancohipotecario@kpmg.com.ar, and (c) lineaeticabancohipotecario.lineaseticas.com.

Through such communication channel, employees may report irregularities or situations affecting an adequate ethics environment. The Line of Ethics is defined as a confidential means of communication by which the Bank's employees may report acts of corruption or any other circumstance affecting an adequate ethical environment, on a 24/7 basis, and in an anonymous, confidential and safe manner.

After receiving a concern and/or report, a process is initiated leading to answer to or check the reported event. Reports are directly informed to the Ethics Committee, for it to decide on the actions to take to address the situation. Employees play a key role in reporting irregular situations since they are close to the information and, therefore, the Committee keeps each contact confidential. In both cases, the Committee ensures the process transparency, and that the report will remain anonymous and confidential for those who do not wish to be identified when reporting an event.

The Code prohibits any form of retaliation against those who raise a concern or in good faith report a potentially unlawful act or unusual situation which, at the whistleblower's discretion, may pose an infringement to this Code or to any applicable law, or internal rule or procedure of the Bank.

It is the intention of the Bank's management to formally address all incoming concerns and reports, reaching a solution in all cases. Such solution will be communicated by means of a formal response, relying on the channel as might be deemed pertinent in each case.

Besides, as a result of Anti-corruption Law No. 27,401, the Bank has an internal procedure in place to validate the suppliers with whom it may operate.

24. The Board ensures that formal mechanisms are in place to prevent and deal with conflicts of interest. Concerning related-party transactions, the Board approves a policy which establishes the role of each corporate body and how transactions detrimental to the company or to certain investors only should be identified, administered and disclosed.

The Corporate Governance Code (paragraph K.4) and the Code of Ethics (paragraph b) set forth the policy on any conflict of interest that may arise between the Bank's employees and Banco Hipotecario and its subsidiaries.

In such cases where a conflict of interest may arise, the Ethics Committee is the body in charge of addressing the issue.

As a highlight of the above-mentioned sections, please find below a detail of the issues that could qualify as conflicts of interest for the offices of Director or Manager and the actions that these officers must implement in those instances: (i) Directors or Management members or their spouses or their relatives by consanguinity or adoption on a straight line or collateral relatives up to the fourth degree inclusive or their next of kin within the second degree or a conglomerate where Directors or Management members hold a significant stake in their own name or through relatives who hold more than 10% of the voting rights and/or ownership interests or when, holding a smaller percentage, they are entitled to elect at least one Board member in that Company, receive inappropriate personal benefits by reason of their services as Company director, (ii) when the requirements imposed by Sections 271, 272 and 273 of the Argentine Companies Law No. 19,550 are fulfilled, (iii) engage in the same line of business as the Company or hold an ownership interest in a company that competes with the Company save for investments of less than 2% of capital stock in listed companies, (iv) take part in processes to place an issuance of securities, in which case they shall only be able to acquire or offer to buy such securities directly or indirectly under the conditions and assumptions fixed by the Argentine Securities Commission to the extent that their involvement in said placement process has not come to an end, (v) deprive the Company, for their benefit or for a third party's benefit, of opportunities to sell or buy assets, products, services or rights, (vi) hold a personal interest in a transaction that involves the Company, a competitor, a client or a supplier, (vii) exert influence on the adoption of decisions or courses of action in order to safeguard or improve any particular investment or financial interest held in a firm to which the Company relates, (viii) exert decisive influence for the Company to hire a firm as supplier, contractor, agent or representative when such firm is owned or run by close relatives or employs close relatives in high-ranking positions or on the board, (ix) provide goods or services to the Company except in the event of the Director forming part of associations of liberal professions that render advisory services to the Company as independent contractors in which case the Director shall refrain from participating in the hiring process and (x) when related to the Company in his/her own name or through a third party, borrows from the Company under preferential terms.

The Director or member of Management must report to the Ethics Committee and/or to the Board sufficiently in advance on the existence of any situation that could cause him/her any conflict of interest with the Company even if such situation was not included in the preceding non-exhaustive list.

The Director or member of Management with interests contrary to the Company shall abstain from participating in discussions concerning the issue or issues involved in the conflict of interest and from voting the relevant resolutions.

In order to determine the existence of a conflict of interest when there is suspicion of non-compliance by a Director or member of Management with the standards laid down in this Code, the Board of Directors shall consult the Audit Committee before considering and resolving the issue.

The Director or member of Management who does not take any action to prevent conflicts of interest or fails to timely advise the Ethics Committee and/or the Board of Directors of the existence of conflicts of interest that affect or may affect him/her shall incur in misconduct punishable with the penalties that may be imposed by the Company and/or the oversight authorities (Argentine Central Bank, Argentine Securities Commission, Buenos Aires Stock Exchange) by virtue of Section 59 of the Argentine Companies Law No. 19,550, Section 41 of Law No. 21,526 and Section 132 of Law No. 26,831.

The provisions under Section 20 of Law No. 26,831 shall also be considered in this regard because they refer to the powers with which the Argentine Securities Commission has been vested when the surveys that it undertakes find that the interests of minority shareholders and/or holders of listed securities have been damaged.

G. SHAREHOLDERS' AND STAKEHOLDERS' PARTICIPATION.

Principles

XIX. The Company shall afford an equal treatment to all of its shareholders. It shall ensure equal access to non-confidential and relevant information for decision-making at the Company's Shareholders' Meetings.

XX. The Company shall encourage the active and informed participation of all of its Shareholders, particularly, in defining the Board's composition.

XXI. The Company shall have a transparent Dividend Distribution Policy, duly aligned with its strategy.

XXII. The Company shall take into account the interests of its stakeholders.

25. The Company's website discloses financial and non-financial information, affording timely and equal access to all Investors. The website has a specialized area to address Investors' questions and inquiries.

Banco Hipotecario publishes financial and non-financial information at its website, https://www.hipotecario.com.ar under the captions Institutional Information and Investors. Such information is available to all investors, and is also published at AIF, which is the online channel enabled by the CNV to communicate with companies under its oversight.

Investors wishing to communicate with the Bank may do so by reaching the Capital Market area, filling out a form available at the Bank's website ("Contact Us"). The information required to be filled out includes first and last name; phone number; e-mail; and contacting company. Then, shareholders raise their questions and concerns, which are subsequently answered, except for those that may affect the Bank's strategy or future plans. The responses will not contain issues subject to banking or industrial secret, or which are otherwise related to the network's commercial operations.

Besides, the Central Bank issued Communiqué "A" 6143, as amended and supplemented, concerning market discipline.

On the other hand, when circumstances of social interest so warranted, the Board of Directors called for informational meetings for attendance by the main shareholders and will continue to do so upon the occurrence of such situations. In turn, shareholders who represent no less than 2% of capital stock may at any time request information on the matters within their purview from the Company's statutory auditors and statutory auditors are under a duty to provide such information (Section 294, paragraph 6 of Law No. 19,550).

26. The Board shall ensure that a process is in place to identify and classify stakeholders and a communication channel available to them.

According to BHN Privatization Law No. 24,855, several classes of ordinary shareholders are defined and classified into 4 Share Classes—A, B, C and D. Such share classes are distributed as follows:

(a) Class A shares: held by the Argentine government or its designated trustees, whose voting rights are exercised by the Argentine government.

(b) Class B shares: held by employees under the Employee Stock Ownership Program and account for 3.8% of capital stock.

(c) Class C shares: These shares are meant to be initially offered to legal entities primarily engaged in the development of activities related to housing construction or in the real estate business, but whose voting rights are exercised by the Argentine government until such time as the shares are disposed of and acquired by legal entities under the share purchase program from time to time established. This share class accounts for 5% of capital stock.

(d) Class D shares: shares whose perfect title is transferred to private hands. Class D shares will not be subject to class changes by reason of being potentially subscribed or purchased by the Argentine government, other public legal entity, or employees under the Employee Stock Ownership Program.

Accordingly, no stakeholder identification or classification procedure is deemed required. On the other hand, the Bank seeks to afford a fair, equal and transparent treatment to all shareholders, respecting their right to be informed at all times.

27. Prior to a Shareholders' Meeting, the Board submits to the Shareholders an "interim information package" which allows Shareholders, through a formal communication channel, to make non-binding comments and share diverging opinions from the Board's recommendations. In turn, the Board, when submitting the final information package, shall render opinion on the comments so received, as deemed necessary.

The Board of Directors complies with the dissemination of calls to meetings and makes available to shareholders the information required for meeting attendance. The turnout percentages posted in the most recent ordinary shareholders' meetings was in the region of 95% of all outstanding shares, undoubtedly, a satisfactory response to the calls to meetings. Therefore, it is not deemed advisable to adopt measures in order to boost minority shareholder attendance at shareholders' meetings.

As mentioned above, given the majority interest held by the Argentine government in the Bank's capital stock, the Entity falls within the scope of Executive Order 1278/2012 and Resolution 191-E/2017 handed down by the Ministry of Finance, which establishes the methodology to make sure that the information to be considered should be made immediately available to the Secretariat of Financial Services within the purview of the Ministry of Finance by the Company's governance bodies (Shareholders' Meetings, Board of Directors, Executive Committee and Audit Committee). It prescribes, in particular, that sufficient notice must be given of the Shareholders' Meetings convened to designate the directors and the members of the Supervisory Committee to be able to discuss all relevant nominations.

The Corporate Governance Code in Section M.1.b. "Equal Treatment" requires an equal and/or transparent treatment concerning information for its shareholders respecting their rights to information. In addition, when the Bank considers that the response given to a shareholder's concern may give the shareholder an undue privilege, the Bank must immediately disseminate said response to the other shareholders resorting to the mechanisms established by the Bank's directors in that respect.

Finally, it should be mentioned that the Bank does not have mechanisms in place for minority shareholders to propose matters for consideration by the Annual Shareholders' General Meeting. This notwithstanding, the Corporate Governance Code in its Section M.1.a. and in accordance with the provisions under Section 294 Sub-section 6 of the Argentine Companies Law No. 19,550 sets forth that the shareholders who represent no less than 2% of capital stock may at any time request information on the matters within their purview from the Company's statutory auditors and statutory auditors are under a duty to provide such information.

28. The Company's by-laws provides that Shareholders may receive information packages for Shareholders' Meetings by electronic means, and remotely attend Shareholders' Meetings by using electronic communication means enabling the simultaneous transmission of sound, video or voice, always ensuring the attendants' equal treatment right.

Such option is not addressed in the Bank's By-laws, but is rather established in the by-laws governing the meetings of the Board of Directors and its committees.

29. The Dividend Distribution Policy is aligned with the strategy and clearly establishes the criteria, frequency and conditions governing dividend distribution.

It is the Bank's Corporate Governance Code (Section M.1.c), not its By-laws, that contains its dividend distribution policy.

It must be underscored that the Board of Directors understands that the distribution of dividends to shareholders is a factor that encourages shareholders to assess the suitability of maintaining their investments in the Bank's shares and for shares to appreciate in market value in order to improve the relationship between market value and their carrying amount. Therefore, the Entity has in place a policy to pay cash dividends to shareholders when so permitted by the size of its earnings and the conditions required by the Argentine Central Bank to that end are met (See the Annual Report's Section 4.2 Dividend Policy as proposed or recommended by the Board of Directors).

If this is the case, an approval is required from the Office of the Superintendent of Financial and Foreign Exchange Institutions for the distribution of dividends in cash previous to submitting the project for the distribution of profits to consideration by the Shareholders' Meeting.

City of Buenos Aires, March 2, 2020

On behalf of the Board of Directors
of Banco Hipotecario